CABLE VISION

OCTOBER 24, 1994 • $4.00

THE BOX WARS

Cable, computer and consumer electronics companies are battling for control of the set-top box —the key to the digital future

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- PULL-OUT DATABOOK
- SPECIAL REPORT: VIDEO-ON-DEMAND

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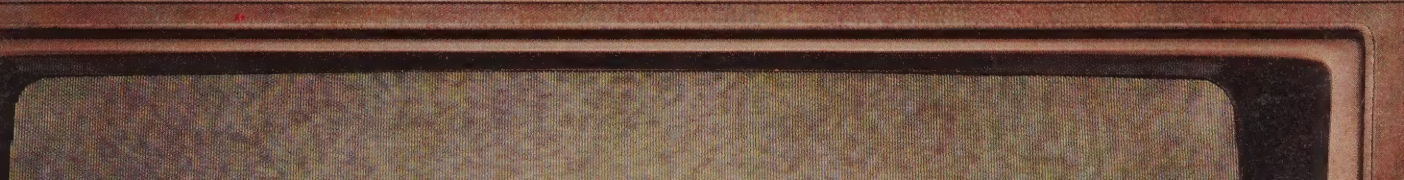

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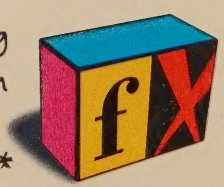
When your viewers send us mail,

they never know where it might end up.

The fX studio apartment has a kitchen like your house. A living room like your house. Even a bathroom like your house. So when we get a letter from friends, it goes on our fridge. Just like, well, your house. At fX, we treat your viewers like part of the family.*



*Maybe that's why 89% of viewers surveyed said fX added value to their local cable service. Source: Horowitz and Associates, August 1994.

CABLE VISION

October 24, 1994

COVER PHOTO
BY WILLIAM NEUMANN

COVER STORY: THE BOX WARS

Cable, computer and consumer electronics companies are battling for control of the set-top box.

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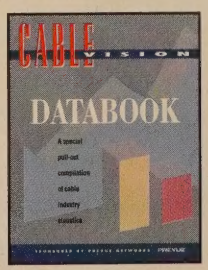

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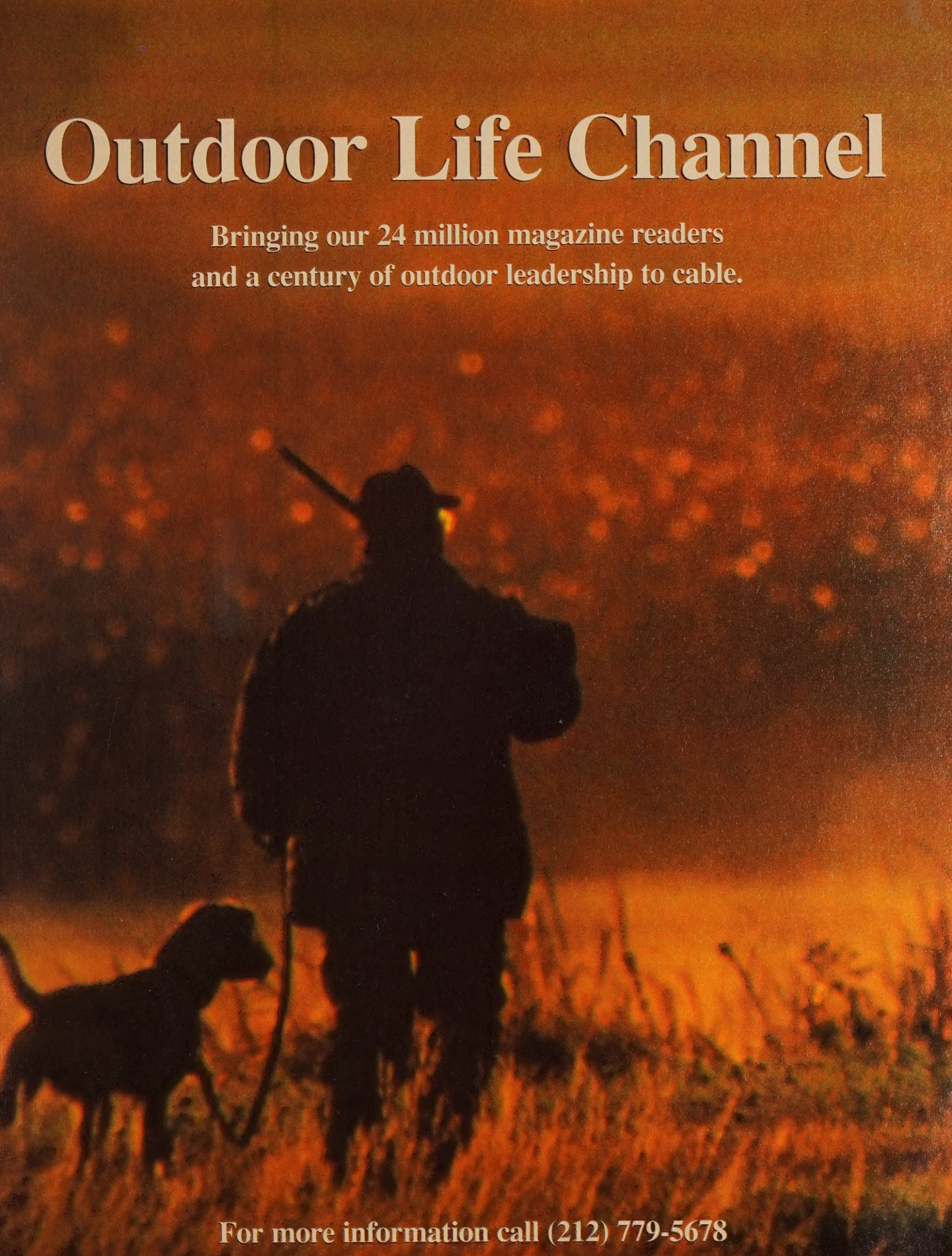
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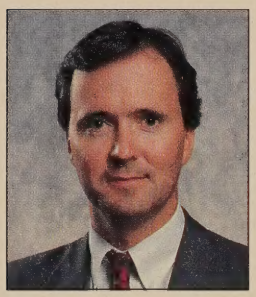
Speaking in Tongues

Cablevision's editorial staff recently attended a slew of industry conferences in which panel sessions addressed the future of interactive television. Here is our consensus on the words of wisdom issued by the majority of panelists we heard: B-O-*O-O-R-R*-I-N-G!

Sorry, but it seems like speakers these days are running out of interesting things to say. A year ago they could fill listeners' heads with visions of information superhighways and pontificate endlessly about breathtaking events like the TCI-Bell Atlantic deal (remember that?).



The dialogue on interactivity needs to improve

But now audiences are growing tired of hype, highway cliches, guessing about consumer behavior and pitches for products that don't exist. And the fact is that over the past year most companies' interactive efforts haven't progressed much, at least not in terms of what executives want to divulge publicly.

Can't anyone offer anything concrete instead of vaporware (or as one wag called technology that doesn't exist: "paper-to-the-curb")? At least if you're Peter Barton, the Liberty Media chief who keynoted Convergence '94, you can offer $200 million for new multimedia innovations. Now *that* gets an audience's attention.

So what should speakers do? Deep-six that futuristic presentation video, switch off the laser pointer and talk about what's available here and now that will help cable evolve into an interactive medium. Talk about what's working—and what's not. Offer realistic cost and revenue parameters. Address serious issues, like what should be done in terms of regulations, platforms and standards. Discuss the marketing and operational support that's needed. And since customer service is critically important (as every panelist tells us), what is your company doing about it?

Certainly these subjects have a propensity for boredom. But by putting more nitty-gritty into the interactive dialogue, the industry may learn how to make this new world a reality.

Craig Leddy

Editor

Volume 19 Number 8 October 24, 1994. © 1994 by Chilton Publications. All rights reserved. Cablevision (USPS 547-410) (ISSN 0361-8374) is published twice monthly by Chilton Publications, A Capital Cities/ABC Publishing Group, 825 7th Avenue, New York, NY 10019. Subscription prices: 1 year, $55; 2 years, $99. Outside USA , via surface mail: 1 yr.- $85; 2 yrs-$159; via airspeed: 1yr.-$165; 2yrs.-$319. Prepayment in U.S. funds only. Please send subscription orders to Cablevision, P.O. Box 7698, Riverton, NJ 08077-7698 or call (609) 786-0501. Please allow six to eight weeks for your subscription to begin or for changes to become effective. Second-class postage paid at New York and additional mailing offices. Third-class postage paid (Permit #5690) at Cincinnati, OH 45234 whenever third-class material is enclosed. Postmaster: Please send address changes to Cablevision, Box 7698, Riverton, NJ 08077-7698. Printed in U.S.A.

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38 WAYS

RR Enterprises' CATV Management System improves your bottom line.

1. Price 20% lower than any major competitor's
2. Detailed invoice and credit history messages
3. Fixed and variable length campaigns
4. Customized invoices, work orders and service call forms
5. Monthly charging, flexible invoicing
6. Unlimited history for subscribers and units
7. Complete inventory control from headend to tap
8. Automatic or operator-entry pay-per-view
9. Multiple-criteria on-line customer inquiry
10. Interface to addressable descrambling systems
11. Transfer of pre-authorized check payments by modem or diskette
12. User-definable multiple rate schedules
13. Complete instantaneous subscriber data retrieval
14. On-line work order creation
15. Automatic posting of work order charges to customer's account
16. Automatic logging of service calls by time and date
17. Immediate network availability of work orders and service calls on any terminal
18. Immediate update of customer's balance when charges entered
19. Bilingual system soon to add Spanish
20. Interface to addressable taps
21. Flexible customer payment plans
22. Automatic final notice for accounts in arrears
23. Automatic disconnect work orders for unpaid accounts
24. On-line multiple-batch accounting system with full editing
25. Telephone interface for automatic subscriber inquiry
26. Focus group-driven software enhancements
27. Automatic end-of-day routine and reporting
28. Automatic monthly procedure and reporting
29. Full security system controlling menu or screen access
30. Automatic recording and calculating of pay TV statistics
31. Customized check printing
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Home & Garden Television Network

WHAT AMERICA

CATEGORY: HOME WORKSHOPS

CATEGORY: BACKYARD

CATEGORY: HOME ENTERTAINING

CATEGORY: HOME ENTERTAINMENT

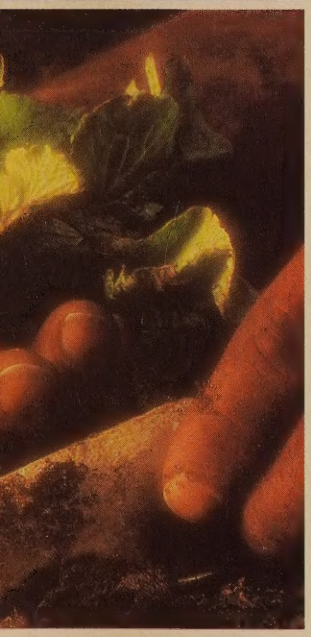
OTHER PROGRAMMING CATEGORIES INCLUDE: GARDENING, HOME OFFICE, AUTOMOTIVE, REMODELING AND REPAIR, DECORATING, CRAFTS AND HOBBIES.

A $260 Billion Opportunity.

Home & Garden Television Network (HGTV) is the only cable network devoted exclusively to everything people love about their homes. Repair and remodeling. Decorating. Gardening. Even audio/visual and home entertainment electronics. All together, Americans spend more than *$260 billion each year* in and around their home.

- Home repair and remodeling: $106 billion
- Gardening and plants: $75 billion
- Home decorating: $45 billion
- Audio/video equipment: $40 billion

WANTS TO WATCH.



YOUR VIEWERS HAVE VOTED FOR HGTV!

The research proves it! HGTV ranked #2 – out of 20 new networks – among cable subscribers who are single family home owners*. Plus, non-subscribers ranked HGTV #3 among new cable networks, surpassing interest in existing networks like A&E, CNBC and TNN**.

HGTV IS ORIGINAL.

More than 75% of HGTV's programming is original. With shows such as:

• ROOMS FOR IMPROVEMENT, with Leslie Uggams and Joe Ruggiero, a weekly home decorating show. • SPENCER CHRISTIAN'S WINE CELLAR, a show about fine wines, hosted by one of America's most famous wine connoisseurs. • STAR GARDENS visits with celebrities and their outdoor retreats. • THAT'S HOME ENTERTAINMENT, the latest consumer audio/video components, games and laser/VHS movies. • CRAFTY KIDS, an educational show with great craft ideas for kids from 5 to 10 years old. • LUCILLE'S CAR CARE CLINIC, entertaining, fun and informative car care tips. • WORKING FROM HOME WITH PAUL AND SARAH EDWARDS, a show for the 12 million work-at-home professionals. • AMERICAN HOBBIES AND PASTIMES, with John Ratzenberger. • KLUTZ AROUND THE HOUSE, an entertaining look at small repair jobs for beginners.

HGTV IS BACKED BY CABLE & PROGRAMMING EXPERTISE.

HGTV is wholly-owned by E.W. Scripps Company, a one billion dollar company with 125 years in the media business. Scripps owns nine television stations, 19 daily newspapers, nine cable systems with over 700,000 subscribers, Scripps Howard Productions, United Media and recently acquired Cinetel Productions – the largest independent producer of cable programming in the United States.

MORE MONEY FOR YOU.

How can HGTV make money for you? We will pay you a share of our national advertising rebates, as well as a percentage of any electronic retailing that we do. You will also receive three local half hours each day to program and sell, or use for community tie-ins. We encourage you to add HGTV on a tier or a la carte basis. The research† says – consumers will pay for it!

*Research Communications Ltd. – 3/94. **Beta Research – March '94 Non-Sub Study. †Warren Publishing Survey.

hgtv
Home & Garden Television Network

HGTV DEBUTS NATIONWIDE DECEMBER 30, 1994

For information, contact Susan Packard at 810-827-4471.

BETWEEN THE LINES

Viacom/TCI Deal to Bed; Is Sie China-beached?

At press time, details of the multifaceted **Viacom/TCI/InterMedia Partners** deal seemed to have been clarified, and an official announcement was imminent.

The transfer of Viacom's cable systems to InterMedia has been finalized for several weeks, with $2.4 billion of financing in place. Equity comes from InterMedia corporate partnership investors, of whom TCI is the largest single one. Debt is provided by a banking consortium led by **Bank of New York**. This cash-for-assets deal will allow Viacom to pay down a substantial hunk of the debt that it assumed when it acquired **Paramount Communications** and more recently merged with **Blockbuster Video**.

Viacom's **Showtime** unit, which is now a Blockbuster subsidiary, will take control of **Encore/Starz!**, with Showtime chief **Tony Cox** heading the combined network operations. TCI and InterMedia, needless to say, will promote carriage of both the Showtime and Encore/Starz! products. TCI will also drop its efforts to create a network competing against **MTV**.

What happens to Encore's **John Sie**? Informed sources say he'll be using his equity from Encore to form a new company (with TCI and Viacom backing) for the purpose of creating television-related investment opportunities in mainland China, where Sie was born. Sie's venture, yet to be named, will operate independently from TCI and Viacom, but anticipates strong support from both companies.

Still to be ironed out at press time was an agreement between TCI and Viacom intended to give more visibility to Paramount product on TCI cable systems. TCI officials were apparently willing to do this, but both sides were still exploring specifics. As expected, Viacom will be dropping its lawsuit against TCI as part of the agreement.

• *Tom Kerver*

UNDERGROUND

➢ **Look for Sears to launch a half-price ($350) Christmas promotion for the RCA DSS equipment. Likely to be limited to select markets because of limited equipment availability, the promotion is apparently being underwritten by GM Hughes Electronics subsidiary DirecTv. Several attempt to reach DirecTv president Eddy Hartenstein for comment were unsuccessful.**

➢ **The national blab-off between cable talk nets could soon be joined by Rainbow Programming Holdings's Bravo. The arts and film network is considering an interactive talk show that would focus on the arts and issues surrounding them. The show would likely be billed as a "town hall meeting for the arts" and would be live with a call-in segment.**

➢ **What's behind reports that SBC Corp., parent of Southwestern Bell, is shopping around its suburban Washington, D.C., systems (ex-Hauser Communications) at a fire sale price? It's SBC's frustration with FCC rules allegedly clamping down on innovation. Management doesn't think restrictive regulation will disappear soon. Ironically, anti-trafficking provisions of the 1992 Cable Act prevent SBC from selling, unless it gets an FCC waiver. In this environment, "there's probably no justification for one," says an insider.**

➢ **Rockwell International is considering a jump into the cable vehicle communications gear market, joining the likes of Motorola, QUALCOMM and Arrowsmith Technologies. Rockwell, a mega-tech corporation with no industry ties yet, will decide soon, sources close to the situation say.**

➢ **In commemoration of *World AIDS Day*, Faith & Values Channel will devote four hours of prime-time programming to explore the issue of HIV/AIDS. The special block will include *The Los Altos Story*, the story of one Rotary Club's moving encounter with HIV/AIDS, *The Visit*, a drama on the healing power of love in the face of AIDS, and *Belinda* and *A Kid Called Troy*, award-winning documentaries about the struggle to educate people about HIV/AIDS. The block will debut on Dec. 1, 6-10 p.m.**

Compiled by Laurel Gross from staff reports

Comedy Central Joins the 'Vertical' Club

In an effort to better define its programming strengths, **Comedy Central** will roll out slates of vertical programming starting Oct. 30.

Similar to **Nick at Nite**'s successful vertical programming push this past summer, two-hour themed programming blocks will debut during prime-time and weekend hours and feature distinct comedy segments from Comedy Central's archives.

"This gets a shine on some of the great stuff that we have," says **Vinnie Favale**, Comedy Central's VP, program planning and scheduling.

Monday will feature British comedy in a prime-time block called *London Calling*. The block will feature Pythonesque programming as well as contemporary British comedy. Tuesday will offer *Saturday Night Live: The First 20 Years*, a weekly retrospective of classic *SNL* skits and stars. Wednesday will be known as *Totally Free Movie Night*, which Comedy Central describes as the antithesis of pay-per-view. For this, the service will dip into its film library for treats such as *Kentucky Fried Movie*.

CABLE VISION

DATABOOK

A special pull-out compilation of cable industry statistics

SPONSORED BY PREVUE NETWORKS

PREVUE

DATABOOK: TIP SHEET

A guide to upcoming programming and pay-per-view highlights for local marketing and ad sales campaigns.

PROMOTION AND AD SALES TIE-INS

NETWORK	CAMPAIGN	RUN TIME	CONTACT
Comedy Central	*The Way We Help Each Other In A Big Way* Conduct blood donor drives using *MST 3000* tie-in	Through March 31, 1995	Mark Barron (212) 767-8886 (marketing)/ David McCoy (212) 767-8742 (ad sales)
The Discovery Channel	*The Space Shuttle* Documentary screenings/local ad campaign	Through Nov. 15	Amy Abbey (301) 986-0444, ext. 5625 (marketing)/ Greg Fioravanti (301) 986-0444, ext. 5137 (ad sales)
The Learning Channel	*Bright Ideas* Community beautification project with ad ties	Through June 30, 1995	Lori McFarling (301) 986-0444, ext. 5641 (marketing)/ Tammy Shay (301) 986-0444, ext. 5465 (ad sales)
MTV	*Enough Is Enough* Present concerts, other events promoting non-violence	Through Dec. 31	Howard Handler (212) 258-8390 (marketing)
The Travel Channel	*Ultimate World Tour '95* Local ad association with special coverage	Jan. 30-Feb. 26, 1995	Tom Lucas (404) 801-2435 (marketing)/ Lisa McCabe (404) 801-2455 (ad sales)
TV Food Network	*Let's Make Sure Everybody Eats* Community activities for anti-hunger telethon special	Through Dec. 31	Stacey Artandi (212) 398-8836 (marketing)

PAY-PER-VIEW HIGHLIGHTS

EVENTS

EVENT	DISTRIBUTOR	DATE	RETAIL PRICE
Boxing: Toney vs. Jones	Main Events	Nov. 18	$29.95
Five Nations Rugby Final	The International Channel	Nov. 22	$ 9.95
WWF Survivor Series	TitanSports	Nov. 23	$24.95
The Rolling Stones Live	SET Pay-Per View	Nov. 25	$24.95
The Young Messiah Concert	Semaphore Entertainment	Dec. 4	$14.95

MOVIES

MOVIE	DISTRIBUTOR	MONTH	BOX OFFICE GROSS
City Slickers II	Columbia	December	$ 42.8 million
Guarding Tess	Columbia/Tri-Star	December	$ 27.0 million
No Escape	Savoy	December	$ 15.2 million
When A Man Loves A Woman	Touchstone	January	$ 44.2 million
Beverly Hills Cop III	Paramount	January	$ 39.4 million
I Love Trouble	Touchstone	January	$ 28.0 million

Event/movie source: Various PPV services BO Source: *Video Business* magazine
Cable Premieres source: Various networks

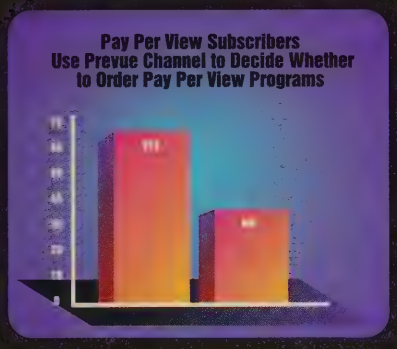
CABLE PREMIERES

ORIGINAL SERIES, SPECIALS AND MOVIES

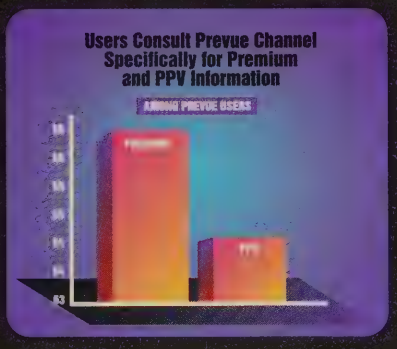
NETWORKS	DATE
Nickelodeon *Series* U to U	Nov. 5
TNT *Special* In Search of Dr. Seuss	Nov. 6
TNN *Special* Merle Haggard: An American Story	Nov. 22
Family Channel *Movie* The Good King	Nov. 26
A&E *Documentary Series* The American Revolution	Nov. 27-29
ESPN *Special* Heisman Trophy Ceremony	Dec. 10
Learning Channel *Series* Naked Eye	Dec. 29
History Channel *Series* Modern Marvels	Jan. 1
TBS *Documentary Series* Anatomy of Love	Feb. 14-15

To submit items for consideration, send to: **TIP SHEET**, c/o *Cablevision*, 825 7th Ave., 6th Floor, New York, N.Y. 10019. Or fax (212) 887-8585. Items should be submitted with enough lead time for system promotion/ad sales campaigns.

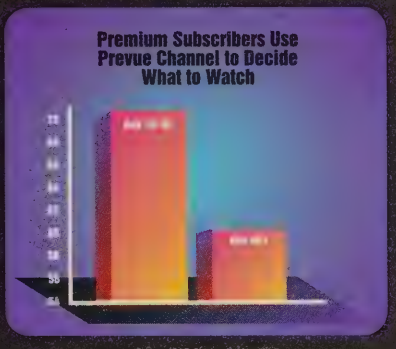
Viewers look to Prevue when they're looking for PPV and Premium. (Just look at these!)



Source: C&R Research, May 1994



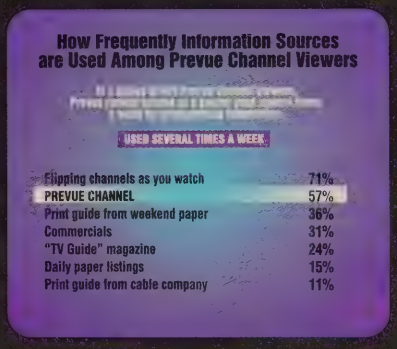
Source: C&R Research, May 1994



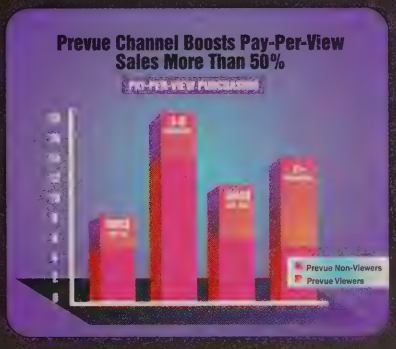
Source: C&R Research, May 1994

Source: C&R Research, May 1994

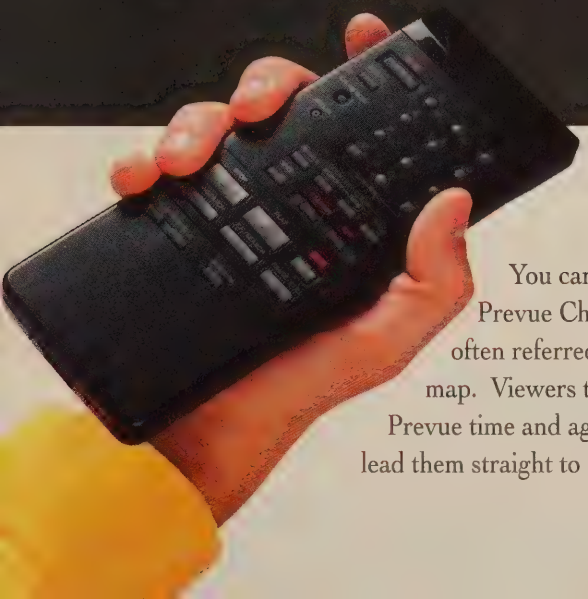
1. Chart reflects the percentage of respondents who identified themselves as Premium subscribers who use Prevue to get specific program information.
2. Chart reflects the percentage of respondents who identified themselves as PPV subscribers who use Prevue to get specific program information.


How Frequently Information Sources
are Used Among Prevue Channel Viewers
USED SEVERAL TIMES A WEEK
Flipping channels as you watch 71%
PREVUE CHANNEL 57%
Print guide from weekend paper 36%
Commercials 31%
"TV Guide" magazine 24%
Daily paper listings 15%
Print guide from cable company 11%

Source: C&R Research, May 1994



Source: Beta Research, November 1993



You can see why Prevue Channel is often referred to as a map. Viewers turn to Prevue time and again to lead them straight to PPV– providing a valuable service to viewers and an increase in buy rate revenue to you. Call Prevue today at 800-447-7388. And find out how Prevue can help push your PPV sales up and off the charts!

PREVUE CHANNEL

800-447-7388

A United Video Satellite Group Co.

PAY-PER-VIEW SERVICES PROFILE

NETWORK	LAUNCH	SATELLITE/ TRANSPONDER	SYSTEMS	ADDRESSABLE SUBSCRIBERS
Action Pay-Per-View	9/1/90	Galaxy I-R/20	300	6,849,957
Adam & Eve Channel	2/14/94	Telstar 303/17	25	1,170,000
Cable Video Store	4/1/86	Telstar 303/9	200	2,600,000
Playboy Television	12/1/89	Galaxy V/2	306	10,500,000
Request Television*	11/27/85	Satcom C-4/16 (R1) Satcom C-4/2 (R2-5)	1,100	12,500,000
Spice	7/1/89	Telstar 303/20	365	8,700,000
Spice 2	2/2/94	Telstar 303/10	10	550,000
TheaterVision	3/1/93	Telstar 303/1-6	4	175,000
Viewer's Choice*	11/26/85	Satcom C-3/3 (VC-1) Satcom C-4/18 (Hot Choice) Satcom C-1/21 (Continuous Hits 1-3)	570	12,000,000

*Represents addressable sub count of primary service (Request I/Viewer's Choice I)

NOVEMBER PAY-PER-VIEW FILM SUPPLY

FILM	SOURCE	BOX OFFICE	HOME VIDEO RELEASE
Above The Rim *MPAA Rating: R Running Time: 98 mins.* Cast: Duane Martin, Tupac Shakur, Tonya Pinkins, Marlon Wayans	New Line	$ 12,798,581	10/5/94
Bad Girls *MPAA Rating: R Running Time: 102 mins.* Cast: Madeleine Stowe, Mary Stuart Masterson, Andie McDowell	20th Century Fox	14,045,593	9/28/94
The Inkwell *MPAA Rating: R Running Time: 113 mins.* Cast: Larenz Tate, Suzzanne Douglas, Glynn Turman	Touchstone	7,703,880	10/12/94
Monkey Trouble *MPAA Rating: PG Running Time: 93 mins.* Cast: Thora Birch, Mimi Rogers, Christopher McDonald, Harvey Keitel	New Line	13,500,661	10/19/94
Naked Gun 33 1/3: The Final Insult *MPAA Rating: PG-13 Running Time: 123 mins.* Cast: Leslie Nielsen, Priscilla Presley, George Kennedy	Paramount	47,288,466	9/21/94
The Nightmare Before Christmas *MPAA Rating: PG Running Time: 77 mins.* Cast: voices of various actors	Touchstone	48,116,450	9/30/94
The Paper *MPAA Rating: R Running Time: 112 mins.* Cast: Michael Keaton, Glenn Close, Marisa Tomei, Randy Quaid	Viacom	34,701,065	10/12/94
Serial Mom *MPAA Rating: R Running Time: 93 mins.* Cast: Kathleen Turner, Sam Waterson, Ricki Lake	HBO	6,199,251	8/31/94
Sirens *MPAA Rating: R Running Time: 94 mins.* Cast: Hugh Grant, Tara Fitzgerald, Sam Neill, Elle MacPherson	Miramax	5,161,200	10/19/94

Box office and home video release information supplied by *Video Business* magazine; film information provided by distributors
Running times are approximate

PAY-PER-VIEW EVENT OUTLOOK

EVENT	DATE	TIME*	NETWORKS	RETAIL PRICE
When Worlds Collide: IWC/AAA Wrestling	11/6	8:00 p.m.	RTV	$ 19.95
Shootwrestling III	11/11	9:00 p.m.	RTV/T/VC	14.95
Boxing: Gonzalez vs. Carbajal	11/12	9:00 p.m.	RTV	24.95
Boxing: Toney vs. Jones	11/18	9:00 p.m.	RTV/T/VC	29.95
Five Nations Rugby Final	11/22	9:00 p.m.		9.95
The JFK Assassination: Jim Garrison Tapes	11/22	8:00 p.m.	VC	3.95
WWF Survivor Series	11/23	8:00 p.m.	RTV/VC	24.95
Rolling Stones Live	11/25	9:00 p.m.	RTV/T/VC	24.95
Best of Future Fights	12/3	6:00 p.m.	VC	9.95
Young Messiah Concert	12/4	6:00 p.m.	RTV/VC	14.95
Boxing: Chavez vs. Lopez	12/10	9:00 p.m.	RTV/VC	N.A.
Ultimate Fighting Championship IV	12/16	9:00 p.m.	RTV/VC	19.95
The Glory of Christmas	12/17	4:00 p.m.	VC	9.95
Starrcade '94	12/27	8:00 p.m.	RTV/VC	24.95

PAY-PER-VIEW SERIES OUTLOOK

EVENT	DATE	TIME*	NETWORKS	RETAIL PRICE
World Rugby TV	11/1	9:00 p.m.		$ 9.95
College Football '94	11/5	3:30 p.m.	RTV/VC	9.95
Brazilian National Soccer	12/7	7:30 p.m.	RTV	14.95

*Eastern; check networks for replay dates
RTV-Request Television/T-TheaterVision/VC-Viewer's Choice Source: Various pay per view services

TOP TEN MSOs/THE ADDRESSABLE UNIVERSE

RANK	OPERATOR	BASIC SUBS	ADDRESSABLE SUBS	PERCENT OF BASIC SUBS
1.	Tele-Communications Inc.	10,944,000	3,100,000	31
2.	Time Warner Cable	7,335,330	3,200,000	44
3.	Continental Cablevision	3,000,000	2,400,000	80
4.	Comcast	2,700,000	950,000	35
5.	Cablevision Systems	2,501,531	1,200,000	40
6.	Cox Cable	1,811,842	802,000	44
7.	Jones Intercable/Spacelink	1,540,931	508,936	40
8.	Newhouse Broadcasting	1,386,789	605,261	43
9.	Cablevision Industries	1,339,512	440,622	34
10.	Adelphia Communications	1,322,206	702,000	53

TOP TEN SYSTEMS/THE ADDRESSABLE UNIVERSE

RANK	OPERATOR/CITY	BASIC SUBS	ADDRESSABLE SUBS	PERCENT OF BASIC SUBS
1.	Time Warner/New York, NY	1,000,036	N.A.	N.A.
2.	Cablevision Systems/Long Island, NY	610,717	300,717	50
3.	Time Warner/Orlando, FL	484,684	N.A.	N.A.
4.	Viacom/Puget Sound, WA	400,500	150,000	37
5.	Times Mirror/Phoenix, AZ	368,179	162,173	44
6.	Paragon Cable/Tampa & St. Petersburg, FL	327,954	N.A.	N.A.
7.	Cox Cable/San Diego, CA	326,525	147,991	45
8.	Cablevision Systems/Bronx & Brooklyn, NY	279,261	279,261	100
9.	KBLCOM/San Antonio, TX	257,700	84,500	33
10.	Time Warner/Houston, TX	248,390	N.A.	N.A.

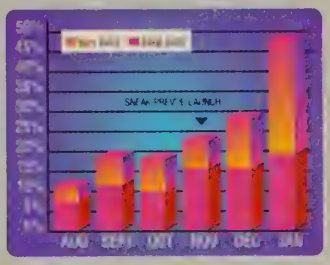
Percent figures are rounded off

WE DON'T HAVE TO MAKE A CASE FOR SNEAK AS A BIG PART OF THE PPV MARKETING MIX. SOMEBODY ELSE IS DOING IT FOR US.

SNEAK LIFTS REQUEST BUY RATES 173%!

System: Casper, WY • 20,000 sub count

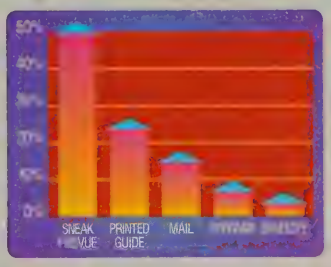
System launched Sneak Prevue in November. Used already-existing Prevue Channel to cross promote Sneak's introduction. Take rates jumped from 10.4% to 15.7% in the first month! In just three months, buy rates jumped to 173%. Plus, buy rates for SBE's jumped from 26.2% in December to 44.3% in January.



SNEAK IS BEST SOURCE FOR SBE INFO!

System: Oakland, NJ • 200,000 sub count

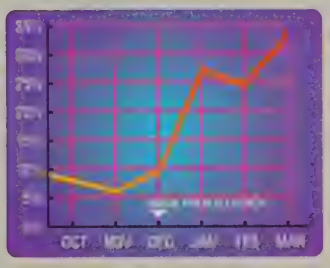
TCI of Northern New Jersey conducted a test among its subs to determine where customers went to get SBE info. By assigning separate ANI phone numbers to each medium, they were able to determine that Sneak was the overwhelming choice!



BUY RATES SKYROCKET OVER 200% WITH SNEAK!

System: Cedar Rapids, IA

This system launched Sneak Prevue in December to help promote their pay per view service, Viewers Choice. Movie buy rates increased over 200% from the previous three months' average buy rates!



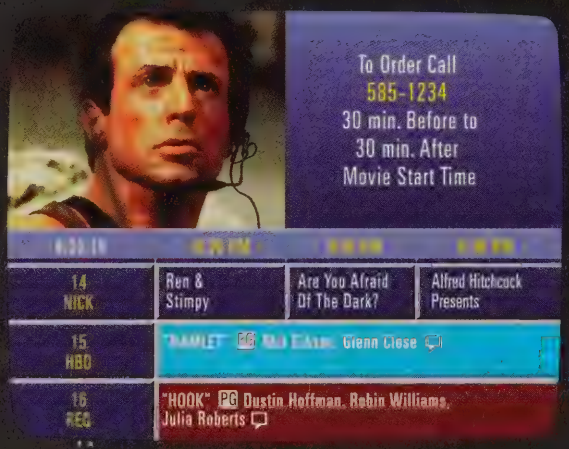
Sneak Prevue has always been the best source for PPV promotion. Or so we hear. Systems report overwhelming success stories with Sneak. And with Sneak's latest new features, the case studies are sure to be even better. If you'd like a Sneak success story of your own to tell, call Prevue Networks today at 800-447-7388. We'll be waiting for your call–just in case.

Sneak PREVUE®

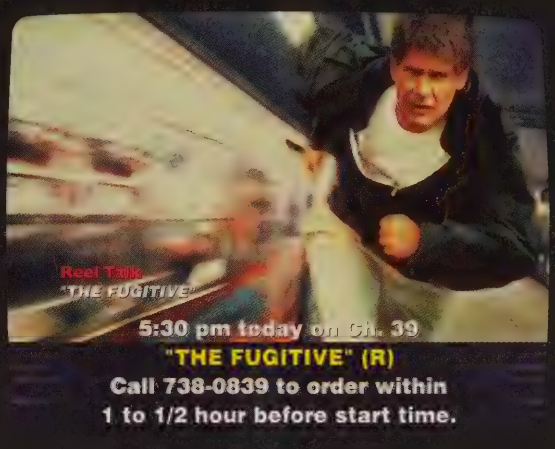
800-447-7388

A United Video Satellite Group Co.

VIDEO SELLS.



Prevue Channel



Sneak Prevue

Get the Picture?

No matter how you look at it, words just don't have the selling power that video promotion does.

From its beginning, Prevue Networks has specialized in video promotion products that make the very best of video and text. Cases in point: Prevue Channel and Sneak Prevue. When viewers want to see what's on, only these channels provide 24-hour video promotion that *viewers seek out.*

Even as we're developing text-based interactive products today, it's all leading up to the most effective, most compelling text and video combinations—with the near video on demand of Prevue Express Plus℠ and the ultimate video on demand of Prevue Express Plus Video℠.

When viewers are looking for what's on—basic, pay, or PPV—let them look at Prevue and Sneak. Just picture the resulting success.

After all, mere words won't be able to describe it.

800-447-7388

PREVUE
NETWORKS, INC

CABLE: THE NEXT GENERATION

Everybody talks about the weather, but The Weather Channel is not just talk—the Atlanta-based network is maintaining its core business while investigating various spinoff possibilities.

When Debora Wilson joined Landmark Communications' The Weather Channel in August as senior VP of its enterprises unit, her mission was to introduce that cable brand name into new markets.

Until now, she says the Atlanta-based network's main foray into ancillary markets has been The Weather Channel Connection. This audiotex service, accessible to consumers via an 800 or 900 telephone number, has generated "hundreds of thousands" of calls, she notes.

Now, Wilson says she has begun exploring the potential applications of weather for online services, CD-ROMs, video-on-demand and other interactive areas.

Among a growing number of cable executives lately coming from non-cable backgrounds, Wilson had since 1989 served Bell Atlantic in various capacities, notably as marketing manager and director of marketing of video information services. As such, she was involved in planning and developing interactive video services for the consumer marketplace.

PROFILING: The Weather Channel's Debora Wilson

Wilson had joined Chesapeake & Potomac Telephone Co. in 1979 as a service operations manager.

As for The Weather Channel's explorations into new territory, might the service join the group of cable nets now publishing spinoff magazines? (see story on such ancillary businesses, page 43). Wilson says that's "certainly a possibility," but any decision will ultimately "depend on whether the customer wants it."

Some of the new ventures Wilson is involved in could come to fruition between 1995 and 1997, she says. • *Jim Forkan*

Thursday evenings will feature *Spotlight*, which will devote an hour to profiling two of the biggest names in comedy each week.

The weekday prime-time blocks will wrap up on Friday with *Play MiSTee for me: All Request MST 3K—MST 3000* devotees will control the program schedule with requests for *MST* programming via **Prodigy**'s on-line service links to Comedy Central.

The themed blocks will continue during the weekend with *Nit Wits*, a block of silly comedy programming on Saturday mornings; *Girls, Girls, Girls*, Comedy Central's female-oriented programming; *The Brightest and the Best*, which features the hot new comedy; and *Saturday Night Stand Up*. • *Jim Cooper*

The Waiting Game

Launch dates for some new cable programmers are being pushed back as the climate for new services remains hostile. *Cablevision* counted at least 11 major new networks whose debuts have been pushed back—some for just a month, while others have yet to announce new launch dates.

	Networks	Original debut date	Rescheduled
1)	Romance Classics	Feb. '94	Feb. '95
2)	BET on Jazz	Fourth qtr. '94	TBA
3)	Classic Sports Network	Fourth qtr. '94	TBA
4)	World African Network	Feb. '95	First qtr.'95
5)	The Health Channel	Fourth qtr.'94	Second qtr.'95
6)	TV Macy's	Second/Third qtr.'95	TBA
7)	Ovation	Fourth qtr.'94	Spring '95
8)	Game Net	1994-95	TBA
9)	Gaming Entertainment TV	October '94	April/May '95
10)	Fashion & Design TV	November '94	End of '94
11)	S The Shopping Network	September '94	December '94

THEY SAID IT

"Sounds like the big winner in the information highway is the headhunter."

—Brian Roberts, Comcast president, appearing on the Atlantic Show's opening panel in Atlantic City (10/4)

"The (Viacom-Blockbuster Video merger) deal was $8 billion. Initially it was $6 billion, but Blockbuster charged Viacom an extra $2 billion for forgetting to rewind."

—*Politically Incorrect* host Bill Maher, appearing on Comedy Central (10/5)

"Cable systems don't have a feel for their local community like [broadcast] station managers do."

—United Paramount Network president Lucie Salhany, announcing the net's premiere in New York (10/5)

"Despite the pain and disruption it's inflicted, re-regulation will not—can not—put a stop to cable's emergence as the nexus of the communications system in the next century."

—Time Warner chairman Gerald Levin, speaking at the Walter Kaitz Foundation dinner in New York (9/21)

"In a world of 278 channels, shouldn't there be one channel devoted to highlights of the others?"

—*Talk Soup* host Greg Kinnear on E! (9/24)

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The faces may change, but one thing never does...
Kevin Costner
Clint Eastwood
A Perfect World
Wesley Snipes
Sylvester Stallone
Demolition Man
Robin Williams
Mrs. Doubtfire
HBO
SIMPLY THE BEST

THE CABLEVISION-CHILTON

CONSUMER POLL

Inquiring minds want to know: How interested in video-on-demand are consumers? When those who expressed interest in having interactive TV (about 60 percent of the population) were then asked which services appealed to them, more than four out of five people cited VOD. Described in the survey as "access to movies you could watch at your leisure," VOD was by far the most attractive interactive option in consumers' minds.

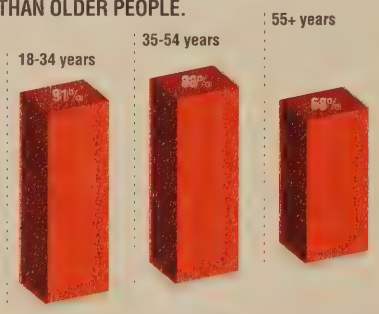
The *Cablevision*/Chilton Consumer Poll found that those aged 18 to 34, including the vaunted Generation X, are far more likely to want VOD than those 35-plus. Enthusiasm for VOD is not appreciably affected by sex or educational level, but the higher one's income level, the greater the interest in VOD. Those at the $50,000-plus plateau lead the way (90 percent interested).

Those who like the interactive TV idea appear willing to pay an extra fee for such services. Less than a third would pay $20 a month, but that figure rises as suggested price points drop. About 45 percent say they would pay $5 monthly.

Delving deeper into the "definitely/probably" group, we find that slightly more than half the women interested in interactive would "probably" use VOD, compared to just under half the men.

Married adults seem more predisposed to VOD—and those with children (especially teens) even more so. *Jim Forkan*

• YOUNGER PEOPLE (18-34) ARE MUCH MORE LIKELY TO USE VOD SERVICES THAN OLDER PEOPLE.



BASE: INTERESTED IN INTERACTIVE TV (n=633)

• MARITAL STATUS AND CHILDREN

	Marital status		Presence of children		
	Married	Other	Under 12	12-17	None
Definitely use VOD	35%	38%	38%	37%	35%
Probably use VOD	51%	50%	53%	54%	48%
Definitely/probably not use VOD	14%	13%	9%	9%	17%

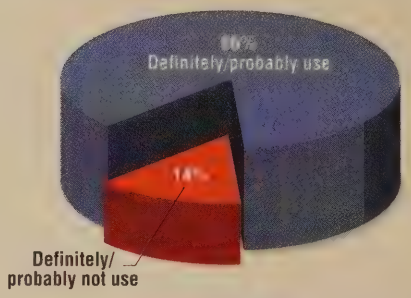
BASE: INTERESTED IN INTERACTIVE TV (n=633)

CHILTON RESEARCH SERVICES

About the study: Chilton Research Services collected these data from July 1993 through June 1994 via the Chilton EXPRESS, a weekly telephone survey of 1,000 Americans over 18. Chilton uses a national probability sample of U.S. households and data are weighted to reflect U.S. Census distribution of household characteristics. Margin of error: plus or minus 3 percent.

Chilton Research Services Media and Entertainment Division, Radnor, Pa., offers research and consulting services to companies involved in cable, network TV, film, home video and multimedia.

• PERCENT WHO WOULD DEFINITELY/PROBABLY USE VOD

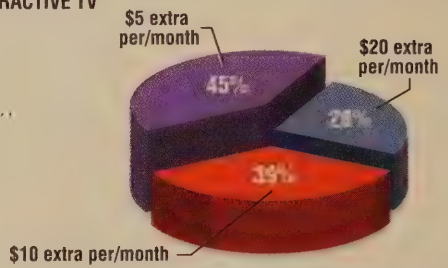


BASE: INTERESTED IN INTERACTIVE TV (n=633)

• TYPES OF INTERACTIVE SERVICES CONSUMERS WILL PROBABLY/DEFINITELY USE

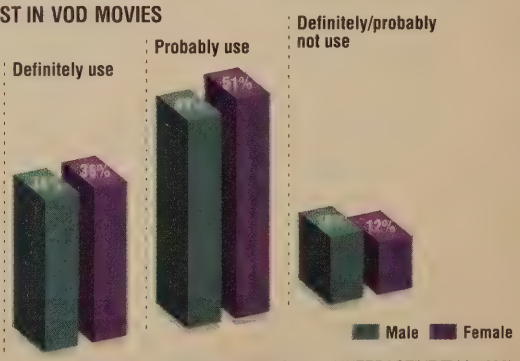
BASE: INTERESTED IN INTERACTIVE TV (n=633)

• ADDITIONAL AMOUNT CONSUMERS ARE WILLING TO PAY FOR INTERACTIVE TV



BASE: INTERESTED IN INTERACTIVE TV (n=500)

• INTEREST IN VOD MOVIES



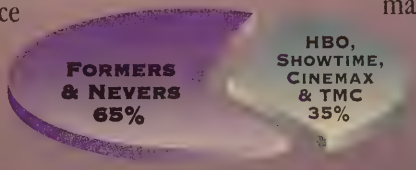
BASE: INTERESTED IN INTERACTIVE TV (n=633)

n = number of respondents

YOUR GLASS IS MORE THAN HALF EMPTY

REALLY, YOUR GLASS IS ONLY 35% FULL.

You're tapping into only 35% of your subscriber base to generate all of your pay revenue. 65% of your base, made up of former and never pay subscribers, goes untapped. These subs represent your toughest audience. They are dissatisfied with the current offerings because of price and content.



THIRSTING FOR MORE?

STARZ! and Encore appeal to the tough-to-please former and never pay audience with 1st run exclusive movies, recent made-fors, and hit movies of the '60s, '70s and '80s. ***But no excessive violence or gratuitous sex.*** And STARZ! and Encore are two premium channels for half the price of one maxi-pay. Tapping into formers and nevers will not erode your existing pay base.

POUR ON THE UNREGULATED CASH FLOW.

Adding STARZ! and Encore expands the pay category and increases your cash flow with margins of more than 50%. Best of all, STARZ! and Encore are available now. Call your Encore representative today, and tap into new streams of unregulated cash flow.

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Alternative Technologies 303/267-4000 •
Central 708/827-0033

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Two Great Channels. One Low Price.

HANG ON

CLIFFHANGER

TRI STAR

It's a real Jerker—

to think you're missing out on profits from our pay per view system.

With the PLUS™ pay per view system, when you show a movie you'll also show a profit. That's because it lets you feature the most marketable films. And choose the times you run them. Both easy ways to increase your buy rates. What's more, it's fully automated, so it requires minimal attention. For more information, call 800-421-6450.

The Pioneer® PLUS pay per view system. It's your channel.

PIONEER® The Art of Entertainment

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It Isn't Easy To Stay On The Ball

As regional sports networks started to close fall sports programming packages, programmers, marketers and ad sales folks were tentatively on the street pitching the 1995 baseball season.

While not an easy sell with the game mired in a protracted strike, networks were frustrated—but cautiously optimistic about the return of the national pasttime.

Battered by the strike that stymied the 1994 season, broadcast and cable outlets lost millions of sponsorship dollars when play came to a screeching halt a little more than halfway through regular season play. And with hockey and basketball seasons possibly in the dumper, the regional nets were being tested—hard.

"It's like two guys arguing about what they are going to do with your money," said one increasingly frustrated executive,

Regional networks are between the pads as the baseball strike continues this fall.

Madison Square Garden Network president Doug Moss.

"I have no confidence — in how this has proceeded so far — that there is any quick solution to this," Moss said, adding that the 1994 losses are "not as significant as the hit we could take next year" if the whole '95 season is blotted out.

MSG starts selling baseball early next month. As of press time, no real progress was seen in the talks between players and owners.

"That's a scary proposition right now," he said. He explained that the upfront sales for baseball made up about 70 to 75 percent of MSG's advertising business last year.

Regional networks struggled to sell, program and market baseball's uncertain future

If the strike lasts into next year, said Moss, "they [advertisers] will just find other places to put their money. They have to achieve their goals in the marketplace and once they're gone, will they come back?"

When asked how Group W Sports Marketing is moving towards the 1995 season, Bob Kunath said, "Cautiously." Kunath, VP and general manager of Group W, which sells national spot advertising for 18 major league teams on both cable and broadcast television, said Group W is hurt badly by strikes because 90 percent of its revenue comes from professional sports.

"Everybody's scrambling," said Terry Chili, director of affiliate sales and network marketing for Home Team Sports, which carries the Baltimore Orioles. Chili said his network is going ahead with programming plans for baseball, but with a strong "Plan B" in place.

SportSouth Network executives Steve Pechman and Hunter Nickell, however, said they are sure that baseball will return and that the power of the Atlanta Braves, which SportSouth delivers to about four million viewers in the Southeast, has kept regional advertiser interest in baseball alive.

"We've already sold half our inventory for next year," said Pechman, VP and general sales manager for SportSouth. As the strike continued, the network had put a slight delay on its presentation process, he added.

Kunath said that while some advertisers see the demise of the 1994 season and the World Series as a red light on buying baseball in the near term, most are still in the game.

"If baseball is a big part of their strategy, they are still moving forward with it," Kunath said.

The Pittsburgh Pirates organization is telling KBL Sports Network that it will field a team next year—regardless of the outcome of the strike. Bill Craig, the network's general manager, is concerned about the caliber of play—should the Pirates organization really put together some kind of a team. "We're kinda concerned about the quality of the players and the fan reactions," Craig said.

While keeping an eye on the baseball negotiations, KBL has already hit the street with its baseball advertising packages and Craig said traditional sponsors in six categories, including automotive, beer and banks, have yet to shy away from making deals for next summer.

In an unusual situation in pro baseball, KBL Sports Network, which offered about 95 Pirates games this year, actually came out ahead *without* baseball. According to Craig, the network was losing about $40,000 per game before the strike.

"It's helped my budget, but in the longterm it's bad business," Craig explained. "You can't have a sports network without sports." CV

The Second Annual

AMC FILM PRESERVATION FESTIVAL

OCTOBER 21-23

She Wore a Yellow Ribbon

Gunga Din

Citizen Kane

Fort Apache

Cleopatra

A Place in the Sun

Double Indemnity

The Plainsman

For Whom the Bell Tolls

The Big Trail

The Greatest Show on Earth

Gene Autry: Melody of the West

Support Film Preservation. Call 1-800-AMC-3360

What if your favorite classic movies disappeared? It's not impossible. Over half the movies produced in the U.S. before 1950 have already disintegrated. That's why AMC has joined forces with the Film Foundation to present the Second Annual Film Preservation Festival. All funds raised by American Movie Classics will be distributed through the Film Foundation to member archives, and will directly support projects to preserve and restore American film.

AMERICAN MOVIE CLASSICS

10 TEN YEARS OF DEDICATION TO THE CLASSICS

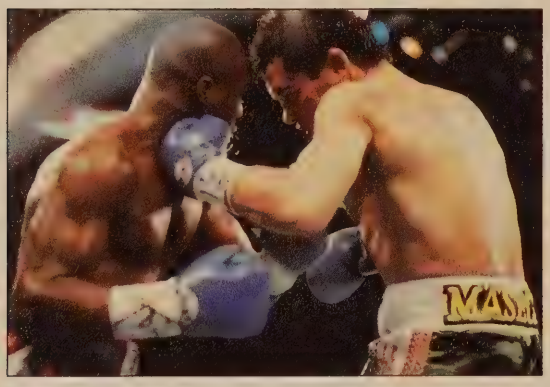
© 1994 American Movie Classics Company

Calling Cards Drive PPV Message Home

The telephone companies and the cable industry haven't always met eye-to-eye as new communication technology puts them right on a collision course as we head toward the information superhighway.

But both industries are finding common ground on the pay-per-view front—as newly-created, pre-paid telephone credit calling cards are being used as marketing tools by operators and distributors to drive PPV movie and event buys, particularly among minority and foreign-born U.S. audiences.

Action Pay-Per-View, for example, has teamed up with GTE to offer free PPV movies with the purchase of a pre-paid GTE phone card, says Joe Lawson, director of marketing for Action.



Century Cable Southwest used pre-paid calling cards to help promote Showtime Event Television's Sept. 19 Julio Cesar Chavez-Meldrick Taylor pay-per-view fight.

Action subscribers can receive a free PPV movie with the purchase of the $14.95 long-distance card—which provides up to 25 minutes of long-distance calls anywhere in the U.S.

Lawson says subscribers can customize the card to feature their favorite National Football League helmet—an extra incentive to buy the card. Action is using the card to spearhead a three-month holiday PPV sweepstakes beginning in November, which will award as a grand prize a Chevrolet S-10 pickup truck along with secondary prizes of free long-distance service through GTE.

Cable operators use phone credit cards to drive PPV movie and event buys

Meanwhile, Century Cable Southwest used pre-paid calling cards to help market Showtime Event Television's Sept. 17 Julio Cesar Chavez-Meldrick Taylor fight, says Amy Shapiro, director of PPV for the MSO. The five-minute calling cards—developed by telephone service provider People Telephone Co.—featured photos of the two boxers with the date and time of the match and were given away with the purchase of the fight.

Although final results were not available at press time, Shapiro says the system was performing well with the fight buys.

SET had initially used the cards a year earlier during the Chavez-Pernell Whitaker PPV fight, says Suzan Couch, senior marketing consultant for the company. The cards—which also featured photos of those fighters—were sold in $50, $20 and $10 increments by SET and the telephone carrier.

Couch says the cards are particularly effective marketing tools for systems that want to reach ethnic and segment audiences, such as Mexican-Americans and European-Americans. Such cards are a novelty to foreign-born and second-generation U.S. immigrants, whose countries of origin are not as exposed to such credit cards and sophisticated telephone service,

"They are very viable marketing tools, particularly to the Mexican-American market," says Couch. "While household phones are a common phenomenon in the U.S., pay telephones are just as common in Mexico [for everyday telephone use]."

Lawson says that Action and GTE are hoping the calling card is also attractive to subscribers in urban households—the target market for both companies. "The target markets are similar to Action PPV and BET's target demographics, and with the NFL helmets they can also reach our strong male demographic," he adds.

Developing marketing tie-ins with major phone companies like GTE also benefits the industry. "Operators can't discount [movies] all the time—you have to look at different options," says Lawson. "PPV being an infant industry can benefit from positive, more established companies such as GTE."

Pending final Chavez-Taylor results, Shapiro says Century will look to offer similar marketing tie-ins with calling cards.

But Couch warns operators who are looking to tailor such calling card promotions to PPV events and movies: Make sure you have the rights to portray the fighters/actors on the cards. "They have to make sure that the rights fall within the shelf life of the [calling] cards," she says. CV

PHOTO BY TOM CASINO

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The Customer Is King for a Day

It's not often everyday folks get to have someone powerful wait on them—and even walk their dogs. But some think that's the beauty of the grand prize in Time Warner Cable of New York's "Millionth Customer Sweepstakes."

Apparently some 20,000 customers would like to see their local cable honchos wash dishes and maybe even wield a "pooper scooper." A week before the Oct. 15 deadline, that's how many New Yorkers in the five boroughs had entered the contest, whose grand prize includes a "night of pampering" by the group's top brass plus a lifetime of free basic/standard cable service, a TV set and a VCR.

"I said I was willing to walk the dog. I love dogs," says Time Warner New York City Cable Group president Dick Aurelio, a dog owner. If no winner owns a dog? "I'll take their grandmothers for a walk!"

Taking customer service seriously are cable execs (from left) John Rigsby, Paragon Cable Manhattan; Steve Pagano, Staten Island Cable; Larry Jarrett, QUICS; Barry Rosenblum and Dick Aurelio, Time Warner Cable of New York City.

Asked how the execs would divide the chores in the winners' homes, he says, "We'll work the details out later. We'll play host to the winners in some form. Some may prefer we take them out to a restaurant—maybe they live in a one-room apartment!" Putting the execs to work was the brainchild of the group's agency, Shepardson, Stern & Kaminsky, he adds.

Execs at Time Warner will walk dogs and 'pamper' their sweepstakes winners

The four grand prize winners, one from each participating system—Time Warner Cable, Paragon Cable Manhattan, Staten Island Cable and QUICS—will get the first-class executive treatment. But there's a lot more: 85 prizes worth over $100,000, including a trip to Super Bowl XXIX from ESPN and a trip to Hollywood via HBO/Cinemax. These goodies were donated by over 30 networks and Time Warner-related operations.

The contest's dimensions "just sort of grew and grew," Aurelio says. "Our program suppliers wanted to participate, and our affiliated companies, Warner Brothers [movies], Six Flags, Warner Brothers Books."

These suppliers were "more than willing to contribute" for the exposure, says Barbara Kelly, the Time Warner group's VP of marketing and customer service. The 20,000 entries enticed by these prizes is a good response rate, higher than anything the MSO has ever done, she adds. The toughest part of the project was not rounding up the prizes but getting all five execs together for the ad photo shoot, she adds.

Initially, this was a "celebration" sweepstakes. "It dawned on us that...we were going to reach 1 million subscribers in the group," says Aurelio. So last June, "we sort of brainstormed some things to celebrate. Instead of a party, [we thought] let's do something for our customers."

Aurelio, however, acknowledges there's a serious side to all the fun and games. Offsetting the potential threats of wireless and DBS and laying the groundwork for a likely cable versus telco battle, he says, were other factors.

A facet of the MSO's '94 customer service campaign themed "We just might surprise you," the sweepstakes was promoted for two months, using cross-channel promos, print and bill stuffers. The heaviest push began in September, after consumers' summer vacations were over, notes Kelly. The execs couldn't estimate the value of the campaign, built chiefly on unpaid promos on the four systems and barter trade deals with TV listing magazines.

The MSO hit the 1 million mark thanks to having signed 90,000 New Yorkers within the past 18 months—32,000 just since January. The bulk of the group's subs are in Manhattan (482,000) and Queens (353,000).

Aurelio credits the upsurge to consumers' awareness that the MSO "has improved quality" and offers "tremendous choices." It all comes down to serving the consumer. "I always lecture new employees that they're not in the cable business, they're in the customer service business," says Aurelio.

Aurelio says it's possible his group's sweepstakes concept may be adapted by other Time Warner systems. "We do report on our experiences" company-wide. The Florida division, for instance, could hinge a similar promotion on having 500,000 subs, he notes. CV

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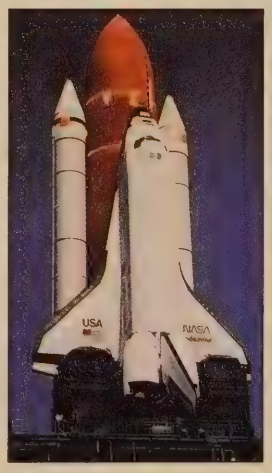
Partners in Prime

Chrysler is Discovery's biggest 'program partner,' including programming input

The Discovery Channel owes its growing "program partnership" with Chrysler Corp. to the copywriting team that created the auto maker's "Rediscover America" campaign theme at the Bozell ad agency in Southfield, Mich.

That theme inspired the cable network to pitch Chrysler in 1992 on sponsoring its *Rediscovering America* specials. Not only was the auto marketer sold on the idea, but it became Discovery's first major "program partner." Two major specials—the most ambitious of this union yet—headline Discovery's schedule this fall.

"Our relationship with Chrysler has evolved into a programming partnership in the fullest sense," says Matt Tombers, VP of program partnerships for Discovery and The Learning Channel. It's become "a true dialogue, reaching from the process of program creation all the way to allowing Chrysler the opportunity for exclusive category sponsorship."



Chrysler will sponsor *The Space Shuttle* in mid-November on Discovery, and later in home video.

Since '92, Chrysler execs like Jim Julow, director of marketing operations, and Ed Brust, general manager of the Jeep/Eagle division, have been telling Discovery execs what topics they are most interested in and the network, in turn, has been sharing future program ideas.

The two major Discovery projects for fall '94 involving Chrysler focus on outer space and inner space.

The Brain: Our Universe Within, a five-part miniseries, began Oct. 2. Next up: *The Space Shuttle*, due Nov. 13 as a two-hour prime time special. *Shuttle* will be rerun five times in various dayparts through Nov. 26.

As with *The Brain* and its other sponsorships, Chrysler's name and logo again will be featured prominently in *Shuttle*'s tune-in print ads and channel promo spots, says Tombers. Chrysler uses its commercial time to advertise various Chrysler, Plymouth, Dodge and Jeep/Eagle brands.

Discovery produced a special 15-second Chrysler billboard—"our longest"—for use in these special buys. The billboard points out the partnership and features the logos of both Chrysler and Discovery. Those seconds come out of programming, not commercial time.

Chrysler's role will continue into the education sector when these specials become available to schools via *Assignment Discovery*, part of Cable in the Classroom.

Catherine Billon, Discovery's director of sales and distribution for video and multimedia, says Chrysler also will sponsor *The Brain* and *Space Shuttle* specials in the home video marketplace. Besides billboards, the videos will feature a special corporate Chrysler message rather than product-sell commercials, Tombers says.

Such sponsored videos, however, will be done on a selective basis. "We want to be careful not to alienate our customers," observes Billon.

(Other auto makers have sponsored shows on cable nets and in home video, e.g., Acura on A&E's *The Real West* and a *Biography* profile of Joe DiMaggio—given as premiums to new car buyers, says Tom Heymann, A&E's director of home video.)

Chrysler will continue sponsoring the *Rediscovering America* specials as well. The 11th title in this quarterly package, *Salem Witch Trials*, is due Oct. 31, Halloween, as Tombers notes. The 12th, *Saving the Land*, is slated for January.

Early this year, Chrysler also presented *Loch Ness: Discovered* while its Jeep/Eagle division bought *Queen of the Elephants*.

Well before year's end, Tombers and execs for Chrysler and Bozell will meet to discuss new programming possibilities.

When asked if Chrysler dealerships have been tying into these network sponsorships, Tombers says Discovery execs are not aware of such an effort. If it is being done, it is through Chrysler itself, he adds.

A smaller program partner, Tombers adds, is Deft Corp., which helps produce the *Furniture to Go* how-to series for TLC.

Similar ventures now in various stages of negotiations involve:

- the Getty Foundation, for a program partnership in *Teacher TV*, a Sunday series tackling such issues as diversity and violence in schools;
- an unidentified athletic shoe marketer for a role that may include home video and CD-ROM spinoffs;
- PetsMart Inc., a pet retail chain that is discussing a pet show for fall '95. Discovery and the store chain already are marketing partners in in-store nature-themed "learning centers" featuring such wares as "Shark Week" videos. CV

The tender young ones have always been hard to snag. Because most upscale media packages don't include Comedy Central. So most local advertisers never get a chance to land successful, younger adults. You see, Comedy Central has the highest median income of any basic cable service.* But while the other so-called upscale networks have the 40-plus mid-life crisis crowd, we deliver the highest prime time concentration of upscale adults 25 to 40.** We even have our own special name for these younger, upscale folks. Zoomers. Yeah, it's zoom with an 'er' on the end. And we bait them with smart, surprising comedy that nobody else has. So insert on Comedy Central and give your advertisers a shot at our young, upscale audience. Just one tip: fresh nightcrawlers work OK, but a convertible coupe is way more effective.

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*Source: MRI Spring '94.**Actually, it's 25-39, but we just wanted to make sure you were paying attention.***Source: Nielsen Media Research (NHI) PNF Database-1993 Average. Select basic cable network comparison using P2+viewers as base and prime time = M-Su 8-11 p. Subject to qualifications available upon request. © 1994 Comedy Partners. All Rights Reserved. What do we have to do to stop you from reading?

Invisible Software

You can't see them, but layers of computer programs make an interactive set-top run

Anyone with a little imagination can come up with cool possibilities for interactive digital TV. But after the dreamers get done, there's some hard work ahead.

That's because what appears on the screen—a game, an electronic programming guide or a shopping service—is only a small part of what goes into making a computer program. It's those unseen parts of the software program that are the subject of a series of meetings for software developers.

With Microsoft, General Instrument has hosted a developers conference for its Linx set-tops. An operating system known as David, which has been developed by Microware, a computer software company in Des Moines, Iowa, has also held a conference. Microware's code is being included in set-top boxes made by Zenith Electronics. Time Warner had a similar meeting for software writers earlier this year.

But what are all these people talking about? Quite a lot. The digital world is complicated.

The hardest working part of a software program is the operating system and the most basic part of an operating system is the kernel, the computerized version of a light switch. "It's the sperm and the egg," says Andy Devereaux, VP of strategic planning for GI. "You've got to put something in that processor so that when you hit it, it wakes up."

Since a kernel is so fundamental, it's in one of the silicon chips that goes inside a set-top. Not all chips can work with all operating systems. Microsoft, for example, uses Intel chips that are specially built to run DOS or Windows operating systems. Similar arrangements are being made for the television business. Not all chips are part of the operating system. Graphics chips, for example, just produce images.

On top of the kernel and also part of the operating system are a series of other software programs that manage the set-top boxes. These parts of the operating system process information from other programs coming in or leaving the set-top. They might also decompress data or images or manage what appears on the screen and the commands that customers give the set-top.

If a set-top box is a post office for electronic data, the operating system performs tasks done by the mail sorters: everything from turning on the building's lights to directing and delivering information to the proper address.

But this is still software that customers don't see. But all these programs must work with what developers write in order for the set-top or its programs to function properly.

So far, GI and Microsoft have described some of those parts of their operating system and network requirements to developers. GI's going to hold the second part of its Microsoft developers conference in December. At that session, software developers are going to get software developers kits (called SDKs) and they'll get hardware emulators that will allow them to test what they write.

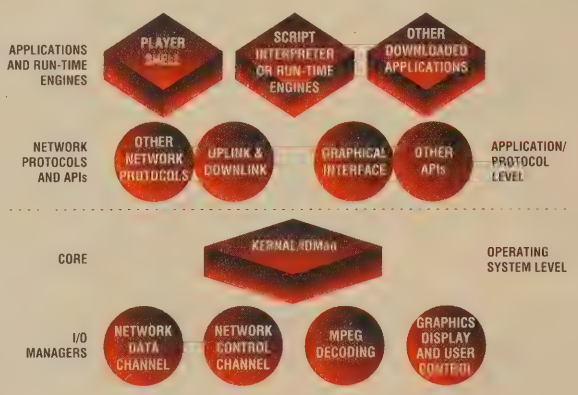
What they write must first of all match what's in the level of programs developers care most about: the application protocols and interfaces. These are the programs that allow games, navigators and other services to function with a particular operating system. They're bridges between what comes with the box and what the box has to learn or import from the outside world. If a developer writes a program that creates a series of circles on screen, it's the graphic application interface that makes sure the boxes show up on the screen at the proper time.

Now, finally, developers can produce the specific games, shopping programs and who knows what else for customers. Sometimes diagnostic tools —programs that monitor the status of other programs—are at the level of software too. So are "engine" programs.

It's all software—and it's a whole new world. "The industry is going to have to have to acquire some level of expertise," says Devereaux. CV

SYSTEM ARCHITECTURE

This chart shows what a typical software system architecture might look like:



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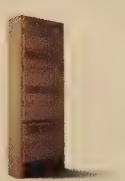

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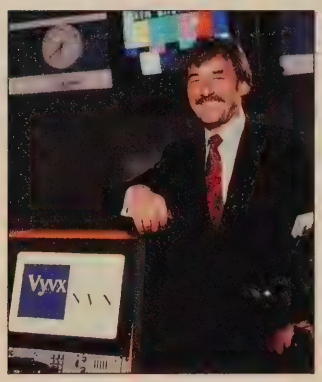
Backhauler Fast-Forwards

Quick: What does the signing of the Israel-Jordan peace treaty at the White House last July have in common with the 1994 Winter Olympics, the MTV Video Music Awards, the Indy 500, or the notorious Jeffrey Dahmer murder trial?

Answer: All five high-profile events were helped to TV sets worldwide not just by traditional transmission technologies such as satellite, but also by a high-quality, fiber-optic network set up four years ago by a tiny, low-profile Oklahoma company as a cost-effective, more secure transmission alternative.

The company, Vyvx, began life as the Tulsa-based television services subsidiary of telecom giant WilTel. In 1985, WilTel's energy business parent, The Williams Companies, decided to use some 25,000 miles of petroleum pipeline to lay a formidable fiber optic network at rock-bottom prices. WilTel eventually began operating one of four fiberoptic networks in the country, while Vyvx became the first company to commercially offer switched, fiber-based, broadcast-quality television transmission nationwide.



Vyvx president Del Bothof wants his backhaul company to expand into "info superhighway" technologies like video-on-demand, as well as into forward distribution.

Satellite operators are still Vyvx's biggest competitors, although Vyvx does occasionally partner with the satellite industry. Thanks in part to a highly aggressive pricing strategy, though, Vyvx's fiber-optic capacity has been able to rein in a list of big-name behemoths, including ABC, CBS, NBC, Fox and CNN, its largest direct customer.

Using its high-quality, fiber-optic network, Vyvx ramps onto the superhighway

Much of what Vyvx does is backhaul news, as well as live entertainment and sports events. Vyvx handles roughly 70 to 75 percent of the professional sports backhaul market, says company president Del Bothof, who estimates the total backhaul market to be worth about $100 million.

However, Vyvx's current goal is to expand into two other service areas: forward distribution (delivering signals to either cable headends or broadcast stations), as well as more "info highway" technologies like video-on-demand.

One thing Vyvx probably can't afford to do is sit still, now with long-distance carriers such as AT&T and MCI trying to compete for video traffic over their own fiber-optic networks.

With only about 75 employees, Vyvx is still tiny. But probably not for long. In August, Williams agreed to sell WilTel to LDDS Communications, while keeping Vyvx for itself. That move led industry experts to speculate that Williams wanted to turn Vyvx from a niche player into a full-service presence within the TV services arena.

Bothof doesn't discourage the buzz. Shortly before the LDDS announcement, he says, Williams gave Vyvx its own 11,000-mile fiber net within the WilTel system as the first step toward upgrading and expanding services.

Vyvx has taken other steps forward toward building its future. Last April, Vyvx contracted computer services giant EDS to design an enhanced "next generation" network management system that will, among other things, not only give it the ability to carry more traffic at a lower cost in more cities, but also allow it to move into new markets, such as forward distribution.

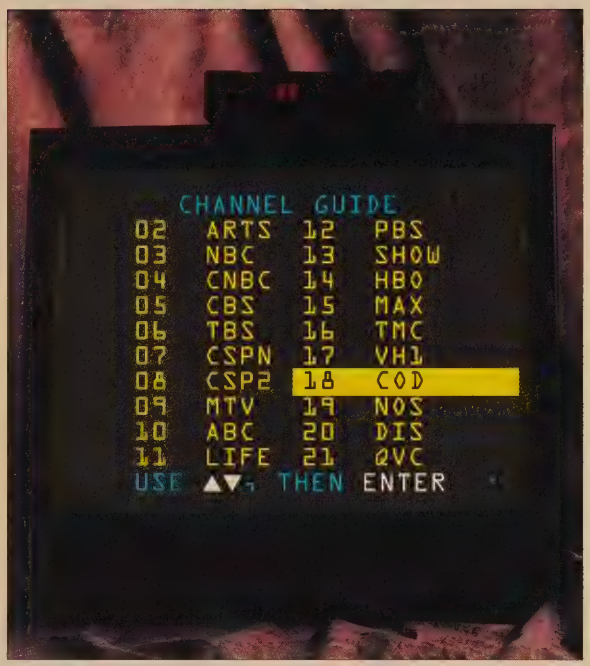
The company has announced an agreement with VDI, a Los Angeles-based duplication facility, to deliver spot advertising to local TV broadcasters as a less costly, more flexible alternative to the traditional "dub and ship" system.

For now, the heart of Vyvx's network is a TV control center in Tulsa that remotely routes TV signals from any point on the network to another, and that is linked to local automated TV switching centers in some 60 U.S. metropolitan cities.

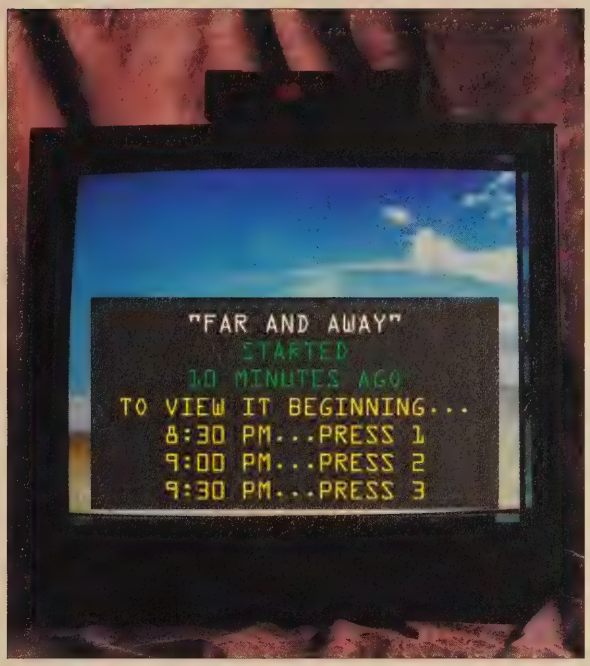
In 1992, Vyvx introduced the first broadcast-quality, fiber-optic network to link independent video production facilities nationwide. That net, First Video, now links more than 50 facilities.

Bothof says, Vyvx is reviewing its initial cost assumptions to see whether it can afford to raise prices, which have been basically the same since the company was founded. "With all the lost satellites, as well as satellite space getting critically low, I think satellite costs are going up, while our costs [fiber optics] are going down." CV

Sana Siwolop is a freelancer specializing in business, who is based in New York.



SEE IT ALL.



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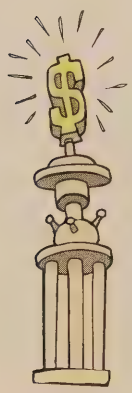
Colony Makes Performance Pay

The employees at Colony Communications' system in Twin Falls, Idaho, do business with a bit more moolah in their pockets. How cold's the cash? Up to $1,000 more per person over the last six months.

To earn the extra money, workers in Twin Falls stepped up their customer service productivity while keeping a tighter fix on expenses and plant reliability. The motivation to do so comes directly from Superior Performance Increases Rewards & Improves Teamwork—SPIRIT for short—a company-wide incentive program Colony launched earlier this year. So far, the company says that its employees around the country are more than $475,000 richer because of it.



HOW COLONY'S 'SPIRIT' WORKS

Company staff can earn extra cash when their system meets or exceeds five criteria. Each of the criteria has a point scale; 70 points is the minimum a system must get to qualify for bonus rewards.

The five criteria:

- Customer satisfaction, measured by a telemarketing survey (150 subs per system)
- Net revenues (excluding home shopping sales and late service payments)
- FCC customer service standard compliance
- System reliability, covering the number of outages per quarter and how the system deals with them
- Expense control

What makes the Providence, R.I.-based operator's program notable, compared to other incentive campaigns that offer cash bonuses, is the scope. Many incentive efforts on the system level focus on a particular goal, such as pushing new basic subs or ad sales over a fixed time period. In Colony's case, employees earn the bonus when their system meets or exceeds benchmarks in a number of operational areas, including customer service. The better the performance, the bigger the payout.

Under SPIRIT, a system employee receives a quarterly bonus ranging from 2 to 10 percent of the salary he or she earns over that time. System managers, ad sales reps and officials involved with other incentive programs do not qualify.

The more that employees meet the MSO's benchmarks, the bigger their quarterly bonus

There's an indirect effect, says Dan Donohue, Colony's human resources VP. "If their people do well, they will likely be better off with their own bonus or commission campaigns," he notes. "So they have a stake in how this works out."

The program covers employees in 32 locations nationwide. Colony spent $75,000 to get SPIRIT together, largely for manuals, videotapes and other material distributed to each location.

Colony developed the program to push systems into making operational improvements consistently. "Knowing that our business will go through some difficult times, sparked by re-reg and competition, we wanted to do something that has positive impact on our operating results and make our employees feel that they have the power to make a difference," Donohue says.

"We're happy with the results to date. The program has paid off and is helping us get through a tough period."

SPIRIT's shape was defined through a series of meetings last year, bringing together Colony system, regional and corporate office managers with Boston-based incentive plan consultant Tom Wilson. From a list of 45 possible benchmark topics, Wilson and the panel settled on five areas.

Each area has a set of benchmarks and a point scale corresponding to elements of each set. In the customer service set, for example, points will be awarded based on how well systems comply with FCC guidelines—from the percent of completed service calls to the average phone call response time. The reliability benchmarks are outage-related, Donohue explains. "How many, how long they lasted, when they happen, how many subs are affected and how quickly the system gets them under control," he says.

A location must score at least 70 points to qualify for the minimum bonus. For the max, 130 points are needed. Abernathy & Associates, a Nashville-based research firm, tracks and scores the activity.

Twin Falls came in halfway for the first two quarterly periods, so employees picked up a 5 percent bonus—$180 to $500 per person. Three other Colony systems did as well during the first SPIRIT period. Overall, 25 systems qualified for bonuses the first time around; four did not.

"However, the systems that didn't make it still improved in some of the benchmark areas," says Colony human resources administrator Ann Davis.

Colony's SPIRIT task force will meet next month to assess the program and review possible changes. CV

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The BOX WARS

PHOTO BY WILLIAM NEUMANN

CABLE, COMPUTER AND CONSUMER ELECTRONICS COMPANIES ARE BATTLING FOR CONTROL OF THE SET-TOP BOX—THE KEY TO THE DIGITAL FUTURE

By Chris Nolan

This convergence stuff isn't all that it's cracked up to be, that's for sure. It sounds great: a world of seamless, two-way video, voice and data connections that allow people to communicate on a new level, using a host of services that will make anyone and everyone providing them rich beyond their wildest dreams.

But that's about the only thing anyone agrees on. In trying to figure out how to get to this digital nirvana, fights have broken out all over Washington. And now that the sweeping telecommunications legislation that was supposed to launch this revolution is dead, some key disagreements could come back even stronger.

Next time out, things could get even nastier for cable. A fair number of well-informed lobbyists see the legislative fight getting more contentious as the model the computer industry wants—an open communications system—comes up against the cable industry's historically "closed" way of doing business. "This is going to be a huge on-going battle," says Steven Effros, president of the Cable Telecommunications Association.

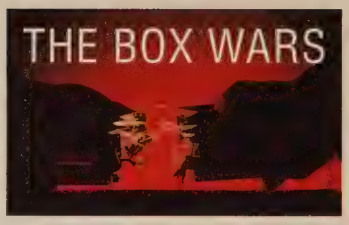
The big fight will focus on who'll get control over the set-top box and what goes in it. The cable industry thinks it should maintain control of the box. Some computer industry engineers, particularly those not aligned with any cable company, as well as consumer electronics manufacturers, believe the cable industry is trying to maintain control of not just the set-top—but the two-way networks cable says it will eventually build.

It's not pretty. In fact, things have gotten a bit nasty. The computer and consumer electronics industries call cable greedy. Cable calls those guys naive.

And what is fundamentally an argument over technology and what it can or should do has turned into a political fight that gives no sign of abating. "I think these issues are major," says Effros. "I think there is immense potential for mischief here."

"We all look forward to the NII (National Information Infrastructure)," says Tom Heydinger, VP of government relations for the Computer Business Equipment and Manufacturers Association (CBEMA). CBEMA (pronounced Sa-BEE-Ma) counts Sony and MCA, the parent company of Panasonic, as two of its members. In measured language, Heydinger says, "I'm not sure there is a single vision that is shared by the cable industry and the computer industry at this time."

Everyone agrees on the importance of any set-top device because the box could easily become the only way for all three industries to reach subscribers. As the market for digital, two-way television is being created, everybody is trying to position themselves for the future. No one



wants anyone else to have more control, better access or services that are superior.

Eventually, consumers may not even need a separate device—for instance, the device could be built into TV sets. "We're not counting on owning the hardware," says Ray Albers, VP of technology planning for Bell Atlantic. "The ultimate goal would be to get it built into the television set." On that point, the phone companies appear to be lined up so far on the side of the consumer electronics and computer industries.

But there's still disagreement about when that day will come—so the set-top will remain the focus of the battle for quite a while. And should the devices ever be built into TV sets, even bigger disputes about the standards that might be necessary then could arise.

The consumer electronics industry argues that consumers should be able to buy whatever features they want—equipment or services. "I would argue the issue is not whether there's a set-top box industry or how much market share people are going to have," says Jim Bonan, VP of the home video division of Sony Entertainment. "The issue is what features are consumers going to want to have. If a consumer wants to go out and buy a video phone, he ought to be able to go out and buy a video phone."

WHAT ARE NETWORKS FOR?

But the conflict between the three industries, in no small part, comes out of a fundamental disagreement—not just about who'll control the set-top but also about what these fancy new two-way video networks are going to do. The computer industry sees switched video networks as a way to communicate. With huge electronic pipelines carrying millions of pieces of data, the computer business envisions opportunities not just to sell computers and computer software but to change the way people talk to one another.

"I think they're very naive in terms of customer services," says Jim Chiddix, senior VP of technology and engineering for Time Warner, about the computer clan. "This really is a whole new world for them. They'll learn. We'll all learn."

The cable industry is more concerned with selling movies and TV programs-on-demand and such services as home shopping. Cable executives have little faith in the ability of a communications system to recoup the huge investments they are making in new, state-of-the-art technology. To pay for all that fiber and computer power, consumers have to be talked into buying things from the companies—in this case, cable—who have risked the money to invent them.

The computer industry is "very naive in terms of customer services."

—Jim Chiddix, senior VP of technology and engineering for Time Warner

It's impossible to know what consumers will want, but a back-of-the-envelope calculation goes something like this: There are 60 million cable television households in the country and each one

ONE BIG FAT HEADACHE: SECURITY

The idea of taking away operators' control of their cable systems—either by setting standards or making cable a common carrier—creates one big fat headache: theft.

"Security is like a door," says Ted Hartson, VP and chief engineer for Post-Newsweek Cable. "You can buy a really expensive tumbler lock but if you put it on a hollow door, some big lug will come by and kick it in." And you can have a strong door with weak security, and the result is the same: It'll be broken sooner or later.

The technology that gives a consumer access to a service—the access control or authorization—and the technology that protects that service—encryption or scrambling—aren't the same. But they are closely linked. "It's a balance between the encryption technology and authorization. It can be separated but it can't be separated reliably. The risk of circumvention is too great," says Hartson.

Indeed, in the backyard dish market, GI's VideoCipher scrambling technology remains uncompromised. What has been broken is the way in which customers are authorized to receive service. Those who steal video use illegally authorized decoders, or at least they did until GI changed its scrambling and authorization system. And GI was forced to make its changes by programmers who were limiting sales to dish owners—particularly pay-per-view and other events—because of the theft rates.

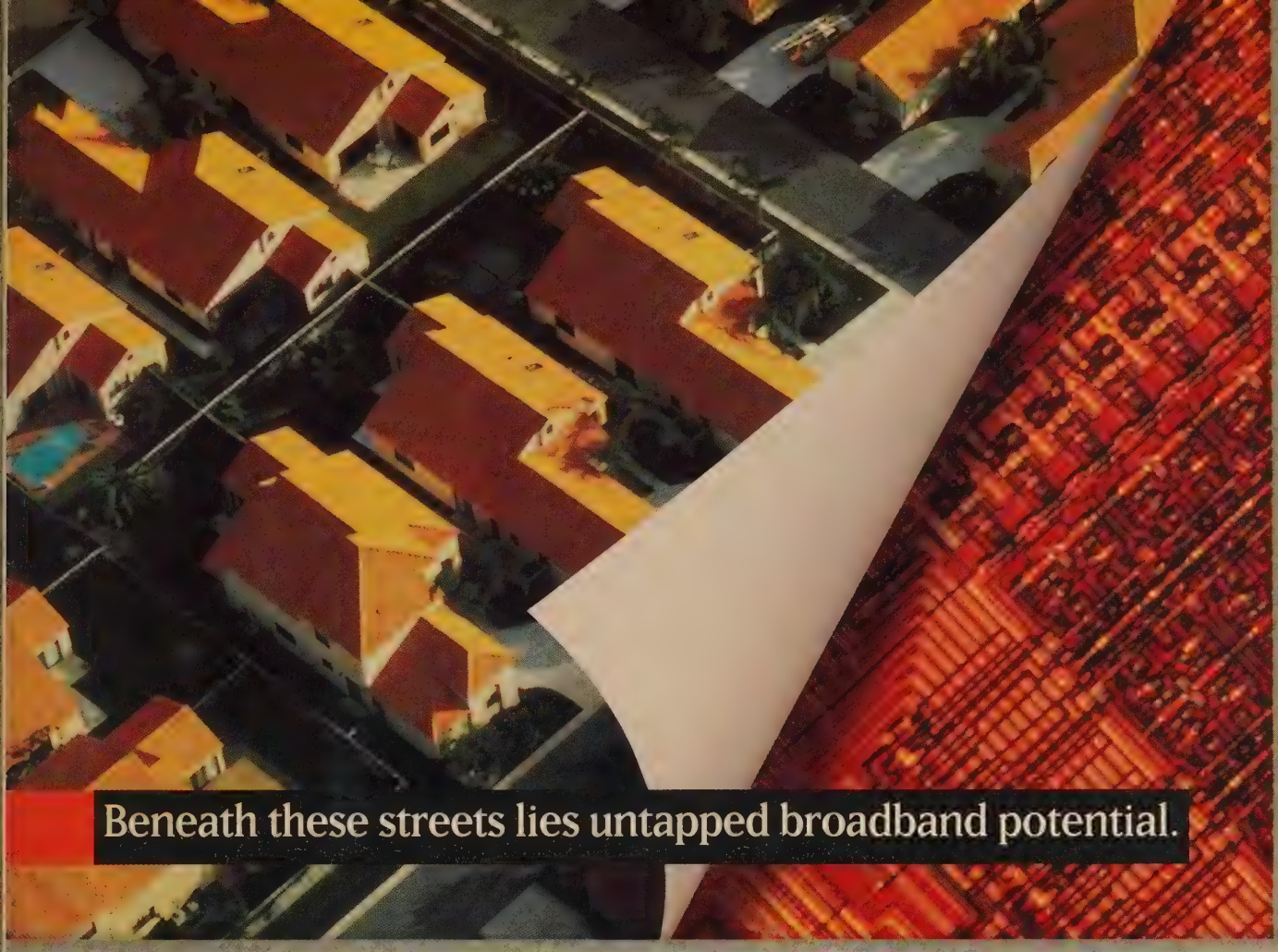
"We have to protect the intellectual property or the sellers of intellectual property will not deliver" to cable, says Steve Effros, president of the Cable Telecommunications Association.

Scrambling and encrypting can't be standardized because they'll be broken very easily. That's the cheap lock Hartson was talking about. And there's some concern that an authorization service that's also standardized could be a hollow door that allows easy access. With one system protection, there's also more of an incentive to try and break in, according to Hartson.

Not surprisingly, there's disagreement between cable operators, computer industry representatives and consumer electronics manufacturers about security too.

There are plenty of people around who say that digital encryption is more reliable than analog and that cable fears are misplaced. "Once you get into the digital realm, security becomes much less of a problem than in the analog world," says Sony's Jim Bonan. "Then you're into 1's and 0's. You can scramble 1's and 0's until your heart's content."

And some will reiterate that in trying to protect intellectual property cable is better off building switched networks as soon as possible. "We believe you add security to the system at several different points, not just at the house," says a computer industry lobbyist. One location: at the switch. So a customer has to go up to a central location and enter a password or code to get service. ■ **C.N.**



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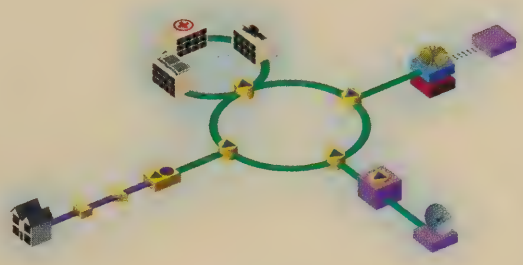

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of them could be outfitted with a set-top box. If retail prices are close to what operators think they're going to have to pay for digital set-tops—$300 or so, about the price of a high-end videocassette recorder—a lot of money can be made by the company making the box.

But the market is potentially even bigger. The telephone companies serve almost every home in the country. If they begin to provide digital video service, the market grows to almost 100 percent of the nearly 98 million households in the country. And $300 times 98 million is $29.4 billion dollars.

STRIVING FOR STANDARDS

But before anybody makes a dime, the various industries must decide what the boxes they need will do. That's where discussions about standards begin.

Standards are, in general terms, agreed-upon means of manufacturing a device and a basic level of service for all devices. All Touchtone telephones, for example, use the same tones and those tones are understood by most other phones and the digital switches in the U.S. telephone network. But everyone knows what a telephone's basically supposed to do. There is no such agreement about what a set-top should, would or could do.

"Describe to me what that terminal would be. Nobody understands what that terminal should be and that's the problem," says Time Warner's Chiddix. "Something that is so fully developed that it can be standardized is years and years away."

"We're a long way from full two-way switched networks," says Walt Ciciora, formerly VP of technology for Time Warner, now a consultant for General Instrument Corp., which manufactures set-tops for the cable industry. "It's still going to be one-way cable for the majority of people for a long period of time."

Time Warner was the first company to talk about the development of fully switched two-way video nets and it is building such a network in Orlando, Fla. That doesn't mean the company's ready to talk about standardized delivery mechanisms. "It's a fine dream. We're years and years away from that," says Chiddix. "What's going on here are industries who are afraid of losing advantage or who are trying to gain advantage."

Sony's Bonan and other consumer electronics manufacturers look beyond set-tops: "It's a question of how can these systems be designed so they allow consumers to go out and buy whatever they want," he says. In other words, it's not the box, it's the network.

If a network is inflexible—if it can only support certain services selected by cable operators—consumer electronics manufacturers could have to leap two barriers to get to their potential customers. They'll have to make sure their equipment is compatible with cable and they'll have to compete with cable—which already has a wire into its customers' homes—to provide a service. Computer manufacturers and software designers say they'll have the same set of problems if cable opera-

THE CASE FOR FULL INTEROPERABILITY

It's easy for business people familiar with the economics of launching a two-way video network to dismiss cries for standards and openness as some kind of politicially liberal plot to seize their property. But it would be a mistake to dismiss these critics.

"It's more than a consumer issue. It's a First Amendment issue. This is a civil liberties issue," says Andy Schwartzman, president of the Media Access Project, a civil liberties advocacy group that focuses on television and broadcast issues. "Our basic principle is we do not want to create monopolies and opportunities for blocking the freest possible flow of technology."

In a world with interactive video, people who operate computers are both users and programmers. That's why they see networks as communciations systems. Those users take stuff—data, pictures, essays, notes, jokes—from the computer network and, as programmers of a sort, place the same sort of stuff on that network for other people to use.

There's a lot of independence, a lot of borrowing and a lot of sharing among users—working and making their individual decisions about what to use and what to abandon. "They don't see somebody sitting in Boulder or Denver telling them what to do," says Schwartzman.

The political pressure that can be applied by this group of computer sophisticates—who may seem like an odd assortment of well-educated naifs—shouldn't be overlooked, particularly when it's teamed up with a civil liberties advocate like Schwartzman. "Some of these folks are not without financial resources," Schwartzman notes.

More mainstream consumer groups like the Home Recording Rights Coalition and the Consumer Federation of America have also gotten involved in the compatibility discussions before Congress and at the FCC. Then there are the phone companies, who so far seem to have lined up with the consumer electronics and computer businesses.

It's not the same coalition that passed the 1992 Cable Act—but it's pretty close. And if Congress wants to take another stab at passing a comprehensive telecommunications bill, this coalition could become more solid pretty quickly. And that ugly black set-top box on top of cable customers' television sets could become as unpopular as those old-fashioned black telephones that no one has anymore.

It's an analogy that appeals to politicians. "We should not be moving toward advanced telecommunications networks by moving back to the days when we all were required to lease out rotary telephones from the phone monopoly. We should be past the point where we have to lease set-top boxes from local cable companies," Sen. Patrick Leahy (D.-Vt.) said in a statement.

For Leahy's scenario to come true, equipment must be made to work together. Everyone in the phone business uses the same basic kind of equipment—beginning with the R-11 jack that plugs into the wall of customers' homes. That's what's known as interoperability. Standards make that possible.

"As a goal, we would like full interoperability. We would like everybody to be able to stick their jack in anybody's plug," says Schwartzman. ■ **C.N.**

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tors control the production of all set-tops and refuse to help set standards.

"They have a system where they have pretty neat control," a lobbyist for a computer industry group says of the cable industry. "Our vision is of a system where they make money as a pipeline carrier." In that scenario, cable operators have become common carriers who make money by ferrying information—regardless of what it is—from one point to another. And, say computer lobbyists, cable operators are trying to maintain control of the set-top in an attempt to stave off that transition. Keeping control of the set-top is cable's first line of defense. "I think it's a way of holding on to what they've got," says the computer lobbyist.

The idea that cable operators don't control equipment is bad enough for most operators. But it's accompanied by an argument against control of programming—since in computer industry terms, users and programmers, viewers and producers, are all the same.

"That's the typical take from those who have it and give it to those who don't," says General Instrument consultant Ciciora. Ciciora and Sony's Bonan are co-chairman of the Cable-Consumer Electronics Advisory Committee, the group negotiating a compatibility agreement to submit to the FCC.

"There's going to be an awful lot of politics in talking bandwidth that's been paid for by investors and giving it to those who don't have any," Ciciora says.

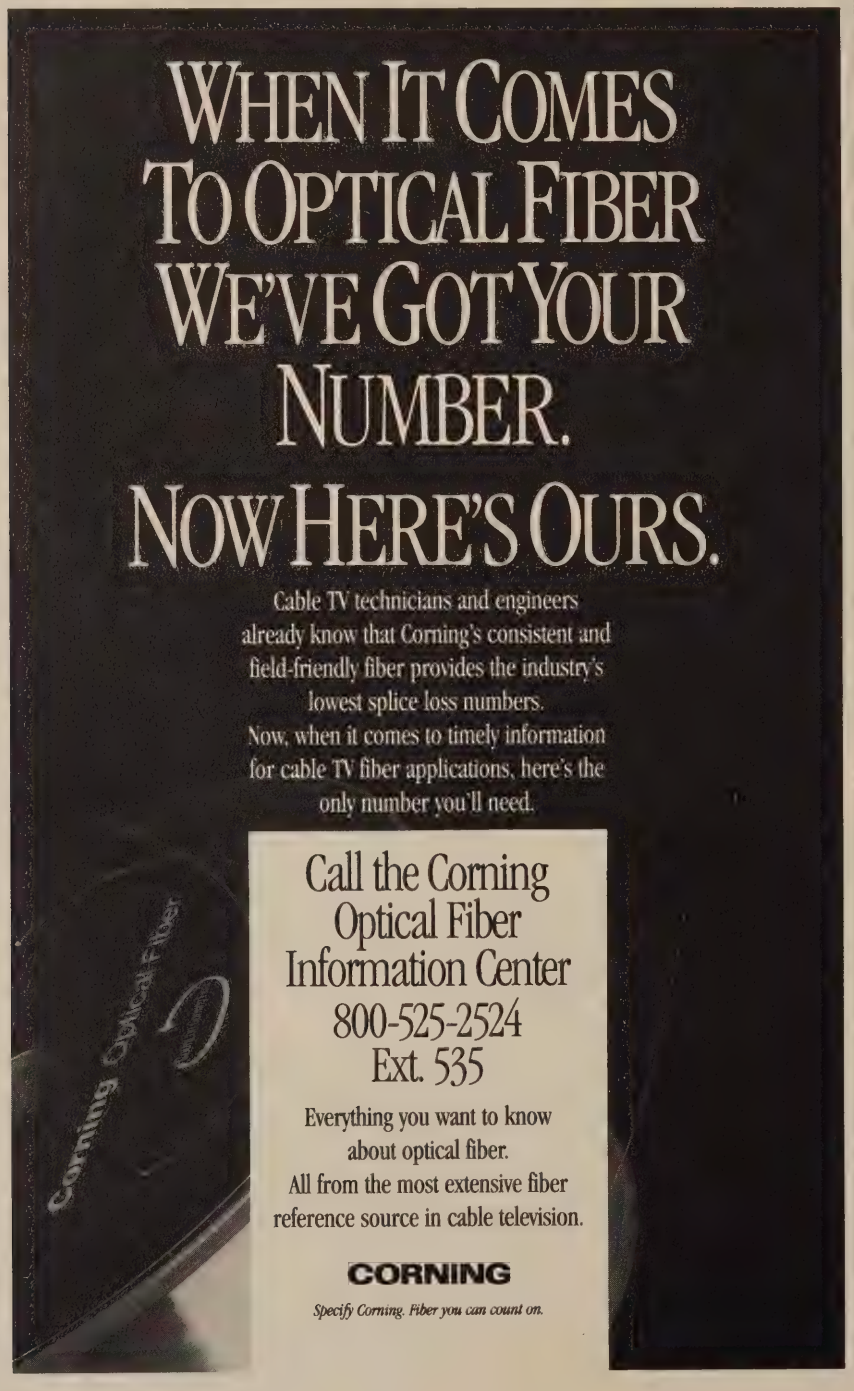
With the use of digital compression, Ciciora says there's plenty of channel capacity for cable operators to maintain a role as an electronic publisher, selecting a group of services and selling them to various groups of customers. Those services that find customers will succeed; those which do not find subscribers will fail. Ciciora calls this "electronic publishing" and he compares it to a video newspaper or magazine.

"It's a question of how can these systems be designed so they allow consumers to go out and buy whatever they want."

—Jim Bonan, VP of Sony Entertainment's home video division

"If we lose the electronic publishing set-up and everything migrates to common carriage, we're going to find a loss of ideas," says Ciciora. "If that displaces electronic publishing, then we've lost an effective means of exchanging ideas."

Ciciora has little sympathy for those who demand full and open access to video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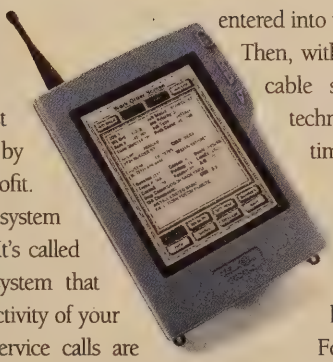

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networks—an idea he refers to as "Video Internet" after the nationwide network of computers tied together by telephone lines. The sort of two-way communications system that makes up the Internet is too expensive to build and won't attract customers to pay for it.

"The folks who are pushing this are primarily at universities. It doesn't cost them anything because the university is paying that cost. It's the same kind of mentality that was all enthused about backyard dishes before scrambling," he says.

The argument that underlies these sorts of demands—that a telephone network is the same as a cable television network—is simplistic and silly, according to Effros. "The problem is getting it to work," he says. "The problem is the incompatibility between the CLI requirements [signal leakage prohibitions] and allowing an untrained engineer to wire your home."

CABLE LOOKS AHEAD

One of the problems with setting standards sooner, rather than later, in the development of a technology, is that innovation can be stifled, says Chiddix. "Cable's history is in investing in new services, taking a chance," he says. "If you were to make a list of everything the cable industry has invested in and failed, it would be a very long list."

For that reason, he says, it's a bad idea for operators to give up control of the set-top box, because, for the immediate future, that's where services are going to be located. "The danger is in shutting out the innovative process," he says. "We're getting way ahead of ourselves."

If consumers have to take the risk by buying a set-top, good service that might only need time and financial support to develop markets could be overlooked.

"No one knows which services consumers are going to want and when there are competing services, which services are going to win," says Ciciora. "The consumer is very much protected by the cable operator owning the hardware."

So, if a service fails, then the operator who keeps control of the box will have saved customers the trouble of replacing hardware that supports only that now-defunct service. That has the side benefit of protecting cable operators from consumer dissatisfaction since operators are sure to get the blame for the failure of a particular service, Ciciora says.

"If the consumer can be made aware of these risks and can appreciate them, that's fine," he says.

The consumer electronics industry says that's fine, too. Let customers take the risks. "Consumers should be able to purchase whatever they want from whomever they want," says Bonan. But before that can happen, Bonan thinks standards should be established. That way, all of the companies fighting for consumers' attention will be roughly equal in terms of manufacturing and costs. "If the consumer is able to purchase some kind of device in a retail store, typically, it has to be standardized." CV

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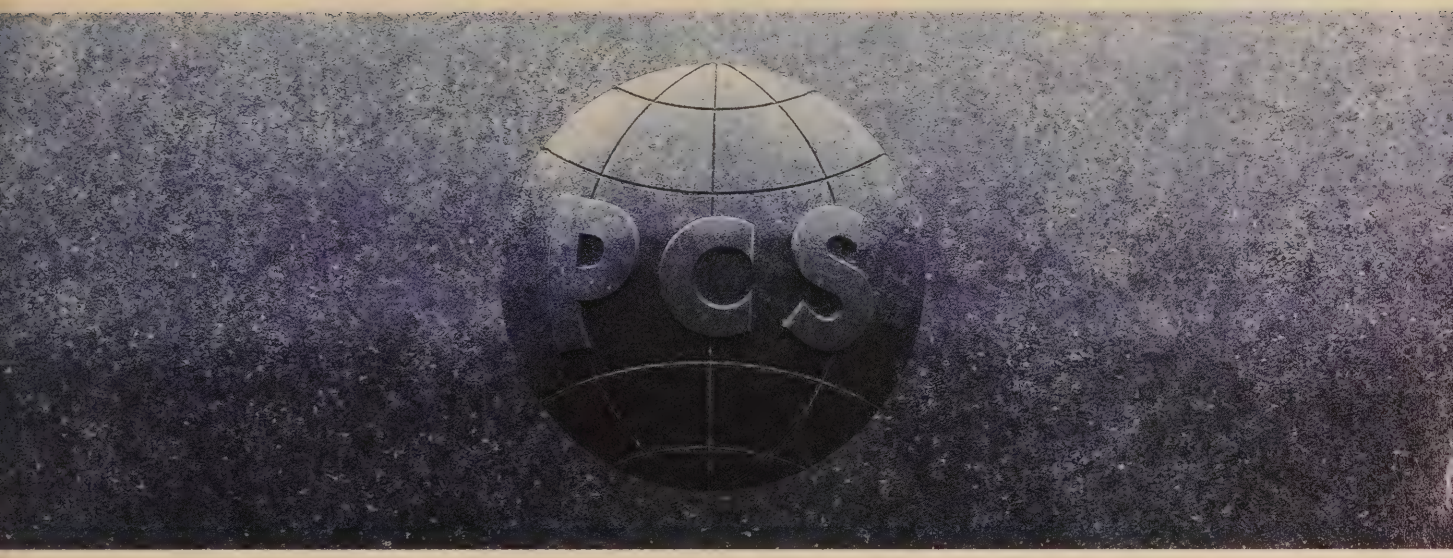

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SIDELINE BUSINESSES MOVE TO Centerstage

Standup comic Paula Poundstone turned the word "ancillary" into a running gag during her Mark Awards presentation at last summer's CTAM conference in Chicago. But to the cable industry, the pursuit of ancillary revenue is no laughing matter.

Magazines, home video and licensed merchandise—from kids' toys to adult fashions—are among the most visible and popular cable spinoff businesses. But videogames, CD-ROMs and online services are still other sidelines that the cable networks are investigating.

Since the FCC's recent rate cuts and restrictions on tiering have made it tougher to increase earnings from subscribers, the unregulated revenue streams produced by such offshoot businesses will become increasingly important to the well-being of networks, as Saatchi & Saatchi pointed out in its cable report last spring.

But do these ventures make good business sense? For the most part, the cable nets claim these spinoffs are proving successful, improving the bottom line as well as consumer awareness of their primary business—cable services.

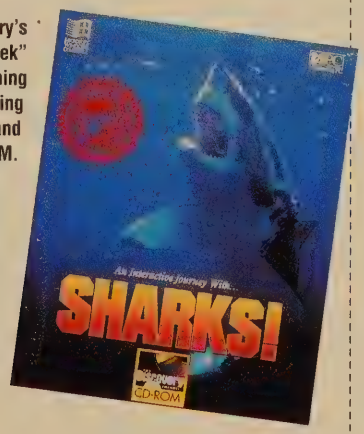
Cases in point:

• Nickelodeon's Anne Kreamer, senior VP of consumer products, says her operation—which includes toys and home videos for kids—is "absolutely" profitable, thanks to *Nickelodeon Magazine* for one, which has doubled circulation to 500,000.

• AMC's home video business is "the biggest revenue producer for us," says Noreen O'Loughlin, senior VP of marketing. Among its standouts: A Deanna Durbin video that sold 10,000 units for $1.3 million in revenues earlier this year.

• Group W Satellite Communications' music-selling operation in Europe has nearly $1 million in first-year sales, says Lloyd

Continued on page 46



Discovery's "Shark Week" programming now is biting into video and CD-ROM.

Its magazine circulation jump to 500,000 is music to Nickelodeon's ears. Above left, Nickelodeon's Gak and Slime novelties, by Mattel.

Oh baby! Circulation for *TLC Monthly* has hit 100,000, versus 5,000 as a listings guide in '92.

Cable networks explore ancillary businesses, from magazines and home video to CD-ROMs and online services **By Jim Forkan**

Here is how some cable networks are growing their franchises:

***Titanic* made a splash on A&E and in home video last spring.**

A&E Network:

• PUBLISHING: *A&E Monthly* (circulation: 135,000) in January expands to 88 pages, with a supplement for History Channel's debut. A magazine plus books inspired by A&E's *Biography* series are now "in the concept stages," publisher Paulette McLeod says. A History Channel magazine is a "long-term" possibility.
• VIDEO: Top sellers: *Dinosaur!* and *A Year in Provence*. Also strong: *Apeman, Titanic, Civil War Journal* and *Biography* episodes.
• While *American Revolution* runs on A&E in late November, its home video and soundtrack CD will be promoted as Christmas gift ideas.
• CD-ROMs: *Apeman* is due.

Comedy Central:

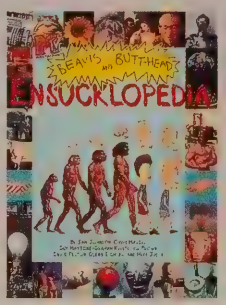
• VIDEO: Corporate training videotapes and brochures "with a sense of humor" are being developed.
• TALENT: Comedy acts are being booked for corporate meetings and conventions.
• PUBLISHING: The first of six books from Putnam Berkley over three years is targeted for late summer '95
• CD-ROMs: Several titles are in the works.

Discovery Communications:

• CD-ROMs: Popular titles: *Beyond Planet Earth* and *Normandy: The Great Crusade*, the latter also spawning in-house video and book links. Due soon: *Sharks! An Interactive Journey, Wings Over Europe* and *Professor Iris Fun Field Trip*.
• VIDEO: Strong sellers: *Normandy, Whales, Riddle of the Dead Sea Scrolls, How the West Was Lost, Wings, Watergate* and *Sharks!* Due soon: *The Brain* and *Space Shuttle*, plus TLC's *A Baby's World* and *Paleoworld; Baby's World* may be distributed in supermarkets.
• PUBLISHING: Magazines *Destination Discovery* (circulation: 170,000) and *TLC Monthly* (100,000). Some clients buy a network/magazine combo, but others, e.g., JVC and liquor companies, buy print alone.
• ONLINE: Discovery began its America Online link this fall. Some video images are offered, e.g., from *Space Shuttle*; already more than 200 AOL subscribers have downloaded its color photos.
UPCOMING:
• CD-ROMs: An "ambitious" 1995 slate, with "10 or so" more titles, will include more in the *Wings* series.
• Video: *Seven Wonders of the World* and *Promised Land* are set for '95.
• PUBLISHING: *Normandy* was its first book spinoff but the company now is in contract negotiations on others, notably *Promised Land*.

ESPN/ESPN2:

• MUSIC: ESPN and Tommy Boy Music will jointly market a *Jock Rock* album this fall.
• VIDEO: ESPN, which has released over 90 video titles so far, sold "several hundred thousand copies" of the '94 Stanley Cup highlights, says Dick Glover, ESPN Enterprises' senior VP.
• PUBLISHING: *ESPN2/Dirt* magazine (circulation: 160,000 young men 16 to 24) is "doing well," says Glover.
• CD-ROMs: A version of *Baseball Tonight* videogame (which sold 175,000 units on Sega Genesis) is due soon via Sony Imagesoft. Due in '95: *ESPN SpeedWorld, ESPN Hockey Night, ESPN Sunday Night Football*, plus the Mayo Clinic sports medicine and health encyclopedia; 30 instructional sports CD-ROMs are due by late '96 via IntelliPlay.
• ONLINE: The ESPNET sports service on Prodigy has had "huge usage," Glover claims.
• MERCHANDISE: ESPN is involved in transactional TV a la MTV's *The Goods*.
• RESEARCH: Sports trend data compiled in '94 for *ESPN SportsCenter* by sister company Chilton Research Services could be sold to ad agencies, sports marketing companies and the like.



Digitized versions of diamond demons star in ESPN's *Baseball Tonight* videogame.

***Beavis & Butt-head's Ensucklopedia* is the MTV duo's next crack at the best seller book charts.**

MTV:

• PUBLISHING: MTV sees "definite potential" in a magazine spinoff but "we need an accurate reflection in print of our TV identity," says senior VP Van Toffler. "We dabbled in it [previously] and struggled with an editorial premise, and whether our audience reads enough."
• LICENSING: *Beavis & Butt-head* is a hot MTV property now, with a comic book and a best seller from Pocket Books, whose *Beavis & Butt-head's Ensucklopedia*, is due in November; a videogame is due soon.
• CD-ROMs: *Club Dead*, an interactive novel is due this fall, with others to come by the 1995 third quarter.
• MERCHANDISE: Its recent move into home shopping via *The Goods*—selling $1 million-plus in "Woodstock '94" wares alone—has led MTV to try a direct mail shopping foray.
• VIDEO: A mix of off-MTV and new-for-video titles should hit retail in the '95 first quarter.
• ONLINE: The AOL summer test's "overwhelming" response rates has inspired MTV to renew for several more months, says Toffler.

Nickelodeon:

• LICENSING: More than 100 licensees with 400 products globally, including Mattel, whose Nickelodeon activity toy line includes the compounds Gak (10 million units sold) and the new Floam, Flash Screen and Thing Maker.
• VIDEO: *Clarissa Explains It All* and the animated *Rocko, Ren & Stimpy* and *Rugrats* have been released via Sony Wonder.
• PUBLISHING: Nickelodeon's magazine, positioned as "a humor magazine for kids" a la *Mad*, is "deliberately not" sold to advertisers in combo with the network, but the two join forces in promotions, says senior VP Anne Kreamer. Simon & Schuster plans 20 Nick and Nick At Nite spinoff book titles in 1995 alone.
• ONLINE: Nickelodeon is working with Viacom New Media on interactive and multimedia concepts, including Prodigy links to its Big Help community service effort and its *UtoU* series. Prodigy includes 300,000 kids among its 2 million members.
• CD-ROMs: *Director's Lab*, allowing users to make their own video art, and *Guts*, inspired by the net's game show, are on the way.
• RETAIL: Nickelodeon boutiques are due in FAO Schwarz in Tampa, Chicago and San Francisco shortly. New York and Minneapolis already have them.

HBO:

• HBO Video's sales of made-for movies are "going smashingly well" in home video, notes Peter Liguori, VP of marketing, citing *The Tracker* and *And the Band Played On*. Due this fall: *White Mile* and *Blind Justice*.
• UPCOMING: *Doomsday Gun* and *The Enemy Within* in the '95 first quarter. HBO Video may add comedy specials and sports to the mix.
• HBO also has cable/video commitments for Savoy Pictures' theatricals, e.g., *Serial Mom, No Escape* and *Shadowlands*.
• CD-ROMs: HBO is eyeing videogames on both cartridges and CD-ROMs, plus other CD-ROM applications.

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SIDELINE BUSINESSES MOVE TO Centerstage

Continued from page 43

Werner, senior VP, sales and marketing.

• Discovery Communications' home video operation is profitable, says Catherine Billon, director of sales and distribution for video and multimedia.

Numerous networks are also looking beyond such tried-and-true "line extensions," as Debora Wilson, The Weather Channel's new senior VP of the enterprises unit, labels them. Many nets have lately been ballyhooing two "hot-button" ancillary areas, namely CD-ROMs and online services. But can they make a buck? Most industry sources feel the big profits in these arenas are still far off.

Wilson, whose unit now is exploring CD-ROM spinoffs, explains, "It's not inexpensive. The range varies wildly," with production costs "ranging from $50,000 to several million." And others note that PC household penetration, for now, is roughly 27 percent—so the inroads that can be made are limited.

Steve Mark, who oversees Comedy Central's enterprises division as senior VP of legal and business affairs, says TV syndication and home video, "the old media," represent "home runs in revenues." CD-ROMs and other new-media offshoots, he says, may be "sexier today, with a lot of promise... The problem [with the new media] is that the consumer hasn't been enrolled yet the way they are for syndication and video. I think it will happen but the explosion is another couple of years away."

Tom Porter, Discovery's VP and general manager of multimedia, says his company began focusing on CD-ROM last year, when *In the Company of Whales* became its first hit. Its CD-ROMs are priced at $50 each.

Though also still in the embryonic stages, online services will eventually deliver four revenue streams to ESPN, and others, says Dick Glover, senior VP, ESPN Enterprises: Subscriber fees, use fees, ad revenues plus revenues from various distributors that will pay to carry the service in much the same way cable systems pay for programming.

Tom Hicks, Discovery's VP and publisher, calls online "the most exciting [spinoff] right now. It's going to be a good place for us to be, because of its good promotion potential and its potential as a business at some future point." To maximize awareness now, Amy Abbey, director of affiliate marketing, has developed a special sweepstakes tie-in promotion, "Mission Control Spacestakes," with the Fresh Perspectives promotion agency.

Publishing Frenzy

And who says print is dead? Certainly not the nine networks now publishing magazine spinoffs. The latest to join that trend earlier this year were ESPN2 and The Sci-Fi Channel.

Country America, the five-year-old magazine published by Meredith Corp. for TNN, has topped 1 million in circulation while scoring a 24 percent gain in ad pages and 50 percent gain in revenues for its fourth year ending Sept. 30, says Werner. "We just got our first profit distribution check the other day."

A&E Monthly is profitable from subscriber revenues alone, says Paulette McLeod, publisher and editor-in-chief. Although many ads have been free to major network accounts, "We're slowly moving to paid advertising."

As for *Destination Discovery*, "it's now showing a little bit of profit" and *TLC Monthly* "will be breaking even" in its second year, says Hicks, publisher of both magazines. Both, he adds, are chiefly driven by subscriber dollars.

Barter and Licensing

Taking their brand names into new sidelines are AMC and Comedy Central, separately breaking into barter syndication and licensed merchandise.

Kate McEnroe, exec VP and general manager, says AMC will acquire distribution rights to promising shows as it expands original programming on AMC. Moreover, AMC is projecting at least $3 million in revenues from a line of Audrey Hepburn merchandise, including clothes, accessories and jewelry, due May '95 in department stores.

Comedy Central's latest deal involves barter-syndication of the *Comedy Central Minute* to United Stations Radio Networks. These daily clips, excerpts of such stand-up comics as Brett Butler and Ellen DeGeneres, will air on 300 stations, says Mark. CC's merchandise line too is due in '95.

Others will surely get into the ancillary arena, but it all won't be smooth sailing. Van Toffler, senior VP of program enterprises and business development for MTV, says his network's offshoot businesses generally have been "tremendously successful." But, he adds, "I couldn't say it's not without bumpy roads." CV

REAL ESTATE: *Bars, Cafes and a Mansion*

Some networks now are looking beyond at-home entertainment avenues, toward out-of-home or so-called "destination sites," such as sports bars and cafes.

In ESPN's case, says Dick Glover, ESPN Enterprises' senior VP, "This would involve building our own facility under the ESPN banner, encompassing aspects of sports bars and arcades." ESPN's first such venture recently moved a step closer to reality when the sports network teamed up with Disney.

A design sketch for ESPN's sports club, due at Disney's Epcot in 1996.

That project is an ESPN sports club due as part of Disney's BoardWalk, a 13,000-sq.-ft. interactive multimedia entertainment center/restaurant, targeted for July '96 at Walt Disney World's Epcot.

MTV, too, is eyeing possibilities outside the home. An MTV complex, including a studio and an MTV Cafe, is being mulled for Manhattan's Times Square area. Both MTV and Nickelodeon plan to develop attractions for Paramount-owned theme parks. Nick already has an Extreme Baseball site at New York's Shea Stadium.

Meanwhile in Hollywood, American Movie Classics is hunting for a mansion suitable as both a tourist attraction and a production studio, says Kate McEnroe, AMC's exec VP and general manager. *Ballroom Dancing*, a 1995 first-run series, could originate from the mansion, she adds. ■ **J.F.**

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BET SHOP, Saturday 5:00 pm ET
THE COLOR OF MONEY, Satuday 8:00 pm ET
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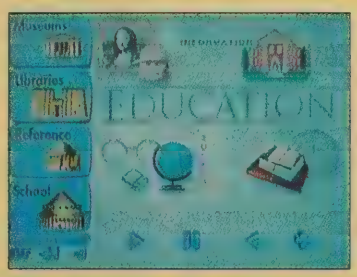
The On-Demand Challenge

Through VOD, subs can get films like *The Fugitive* with Harrison Ford (top) or *Basic Instinct*, starring Sharon Stone, on the fly.

As we move toward a world of two-way, digital television, some believe video-on-demand could be *the* killer application. What could be more appealing than cable subscribers being able to get movies, TV series and other programming whenever they want it? But before we can all kiss pre-set schedules good-bye, a lot has to happen. Near-video-on-demand has been touted as the interim solution.

This *Cablevision* Special Report cuts through the hype to explore what it really takes to get VOD and NVOD systems set up, from three different but important perspectives: the economic, technological and programming fronts.

Does NVOD make financial sense? Our first story investigates the costs—what cable operators *and* customers will have to spend. Next up is a look at efforts of computer companies—Silicon Graphics, Hewlett-Packard, Microsoft and Oracle—to reach into cable territory by providing the high-tech equipment needed to deliver VOD. The powerful wizardry they offer is housed in the expensive but indispensible video server.



Oracle is among the companies supplying tools to develop VOD services.

And what happens to the established mainstream pay-per-view networks such as Request Television and Viewer's Choice when many others, including the movie studios, get into their side of the business? With fighting words, they respond: Don't count us out.

by Tom Kerver

Does NVOD Make $ense?

While NVOD may bolster the case for converting to digital, it's no killer application

An enterprising analyst can do almost anything with a set of numbers. Give two analysts the same set, and they can often reach two very different conclusions.

Nowhere is that more evident than in the uncharted wilderness called NVOD, a.k.a. near-video-on-demand. Depending on whose numbers and whose analysis you believe, NVOD supposedly could become either the salvation of revenue-constrained cable operators or a near-term financial disaster. Whatever it turns out to be, the cost of preparing for it won't be cheap.

With that in mind, let's embark on a safari into the economic jungle of NVOD, where channel capacity is enhanced through digital compression and where digital set-tops provide the customer gateway to NVOD offerings.

The primary vehicle for this safari is a model constructed for CableLabs by University of Denver finance professor Ron Rizzuto. As the accompanying chart shows, NVOD revenue is the crucial ingredient in the cable operator's business decision regarding commitment to digital compression. Customers who want to receive these signals will have to pay $6/month for set-top rental. However, that rental alone won't make much dent in amortizing the cost of a $325 box. Indeed, at $6/month, it would take about 4.5 years to pay off the box.

So, incremental revenue from other sources is mandatory if one is to make a successful business case for converting to compression. In the CableLabs model, the principal source for such revenue is NVOD.

Setting aside headend modification costs needed to permit the passage of digital signals through set-top boxes (estimated at upwards of $5,000/headend, depending on the configuration of compressed channels), under the more aggressive of the two CableLabs scenarios NVOD revenues on the order of $7/month will reduce the time it takes to amortize the box expenditure to somewhere between two and three years.

Many, however, question whether this $7 of incremental revenue is a realistic goal. Says Veronis Suhler & Associates president John Suhler, "The model has to change. Right now, it doesn't appear as if there's a business to support anything close to what cable operators will have to spend to upgrade."

While there are a number of forces working against the consumer spending money of this sort, three stand out: price, product availability and convenient starting times.

The Price Isn't Right

Of these three, price appears to be paramount. A stream of research released over the past year strongly reinforces Suhler's conclusion that "no one will pay a substantial premium over what it costs to rent a movie at the local Blockbuster store."

Dr. Sam Book, who heads the research arm of Malarkey-Taylor Associates, agrees. "Price," he says, "is the most important factor. Look at the VCTV test that TCI, AT&T and U S West conducted in suburban Denver. There was a huge difference in buy rates when the price dropped to $2.95. When the price goes up to $3.95, that extra dollar becomes a real deterrent. People are much more hesitant to buy."

Just how important is that dollar differential? "Based on our research, as well as our analysis of other data, we believe that buy rates at $2.95 will be about six times as high as current pay-per-view buy rates. That's only half of what the VCTV test people talked about, but it's much more realistic. When you go up to $3.95, we don't see the buy rates growing over pay-per-view by more than two, or perhaps three, times," Book says.

Applying those conclusions to the CableLabs model, and assuming that approximately 21 million addressable customers currently buy an average of 3.5 movies/year (a figure that some

CableLabs Digital Parameters

Minimal Buy Scenarios

This is CableLabs' pessimistic scenario for what the customer will spend for digital services. [Numbers 5 through 8 add up to $3.40 per month.]

1. *$6.00 per month box charges**
2. *$4.50 per month NVOD revenue per digital box*
3. *Everybody with a box pays box rental*
4. *NVOD revenue is per box*
5. *Digital Audio Costs - 5¢ per month per box*
6. *Digital Guide Costs - 50¢ per month per box*
7. *Digital NVOD Costs - 60% of revenue*
8. *Digital Compression Costs - 15¢ per box per month*

$3.40

Optimal Buy Scenario

CableLabs' most optimistic scenario shows the customer will spend the same for all of the above for digital services—except for the following two points:

1. *$7.00 per month of NVOD revenue*
2. *20% of the boxes will take a digital tier service for $5 per month*

* Box Rental includes navigation system, remote and digital audio

Time required to amortize box cost of $325: 46 months (3 years, 10 months)

Source: CableLabs and *Cablevision* analysis

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regard as inflated), the numbers would look something like this:

Price	New Revenue Sub./Mo.	Total NVOD Revenue/Sub./Mo.
$3.95	$2.00	$3.15
$2.95	$3.70	$4.85

Clearly, the $2.95 price level appears preferable, as it would drive revenues up by about $1.70/month, vs. $1.15 at $3.95. In both pricing situations, the revenue falls far short of the optimistic option in the CableLabs model, and only with $2.95 pricing does it approximate the CableLabs "Minimal Case" scenario.

An argument can be made, however, for charging $3.95. The extra dollar in revenue from a $3.95 buy could be all "gravy" for the cable operator, depending on the arrangement he has with the copyright source. But, if buy rates remain low, that kind of gravy won't cover much meat. The dilemma resembles one that has confronted retailers for years: Are you better off with high volume and low price, or do you keep the price high while sacrificing volume?

The answer may not be debatable if cable is indeed offering NVOD as a competitive rental alternative. Other rental options now include not only specialty stores, grocery stores and convenience stores, where movies often rent for as little as 99 cents, but also DBS services.

The most visible DBS service, DirecTv, charges $2.99 for its movies, which start at 30-minute intervals. (PrimeStar, the MSO-owned DBS service, offers movies on a pay-per-view basis at the $4 level.)

By competing against the video store on price, DirecTv in effect throws down the gauntlet to cable. No longer can cable offset its $4 price by claiming that it has some sort of "convenience" advantage associated with avoiding two trips to the video store. That offset disappears when cable goes head-to-head against DirecTv.

Moreover, even some video stores are beginning to examine the price/convenience tradeoff and react accordingly. Take Video Cafe, a Denver store that delivers tapes to workers in office complexes and picks them up the following day. The cost per recent release movie: $3.50.

Says Don Fuqua, Video Cafe's enterprising owner/manager, "I'm not sure this would be an economical way to service residential customers, but when I can find several customers in a single building, it seems to make sense."

What Does The Customer Think?

Like DBS, cable is disadvantaged by product availability problems. Despite mounting indications that relationships between studios and cable operators are warming, and despite the fact that studio ownership or equity interest has moved into the hands of such cable operators as Time Warner, TCI and Viacom (which now owns Blockbuster and won't be a cable operator much longer), the release of product to video stores often months before it's available for showing on cable (or on DBS) seems to be a sign of the times.

This is a major impediment for cable operators, says Fred Nichols, president of TCA Cable. "We're well positioned to begin offering this type of product. But, then I see when movies become available to us and I wonder if this can work. Today, with pay-per-view, I'm amazed that we can sell what we do after some of the things we offer have been on the store shelves for six months."

"Price is the most important factor" in whether NVOD takes off, says Malarkey-Taylor research chief Sam Book.

As if this weren't problem enough, the customer apparently has tossed yet another obstacle in the path of both cable and DBS: Customers want movies to be available for viewing more frequently than every 30 minutes or so. If the suburban Denver VCTV test demonstrated nothing else, it did show, as was officially reported, that "VCTV customers feel that making movies available every 15 minutes rather than every 30 would increase the value of the service."

Is There A Business?

Right now, the only feasible way to accomplish that is to dedicate more compressed channel capacity to NVOD movies. Doing that, however, means reallocating capacity that might be used for something else. What suffers?

That's a decision vexing each cable operator who opts for compression. In addition to whatever channels are set aside for NVOD, other offerings competing for carriage will include a growing number of multiplexed services (more than 20 channels alone of Time Warner premium, Viacom premium and Encore/Starz! offerings), at least 100 and perhaps as many as 150 niche and general interest satellite services, broadcast must carries and local channels. Add this all up, and total compressed demands easily exceed 300 channels, perhaps 400. So, the much-maligned "500 channel" world is actually very close.

To date, however, technology hasn't been very cooperative. Whether you speak in terms of DigiCipher II or MPEG II, getting beyond 6:1 compression, even for movies, has been tough to accomplish outside of the laboratory. DirecTv continues to struggle at 3:1, especially when it offers fast-paced sporting events.

DirecTv may soon be forced to introduce 15-minute start time intervals on its NVOD movies. It has tens of millions of dollars invested in NVOD editing and playback equipment. If that investment can't be justified because of customer resistance to 30-minute start times, there's little option but to go to the 15-minute frequency in an effort to bolster buy rates.

Should that happen, it would be both good and bad news for cable operators. On one hand, DirecTv would have to jettison something to make room for more NVOD channels. On the other hand, cable operators may have to do the same thing to be competitive with 15-minute starting times.

Some, however, aren't convinced that the 15-minute start is all that important. Says Malarkey-Taylor's Book, "I have little doubt it would increase the value of the NVOD product. But, I have seen nothing to suggest it would be reason for anyone to justify a price increase."

Blend together the factors relating to price, starting times and product availability, and the bottom line could well be that, as Book says, "NVOD has a lot to prove." CV

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by Chris Nolan

The Wizards of VOD

Massive computers are essential to deliver VOD, but it's easier said than done

To provide video to cable customers on demand—when they want it and not according to some pre-set schedule—a cable operator needs to invest heavily in computer equipment. That may sound glaringly obvious, but it's a complicated decision that's not made any easier by the state of the market. There's very little product out for sale right now. Almost everything is a test of computer capacity, processing or network integration that's necessary to make customers' lives easier.

Operators looking to provide video-on-demand are investing heavily in computers called video servers that can deliver movies, concerts, or even a sitcom episode or specific music video when customers demand it.

Servers can call up and transmit images quickly and can simultaneously send out several copies of a movie or concert. It's a great one-stop solution to a complicated problem.

Unfortunately, it's easier said than done.

Setting up the computerized networks that must accompany the use of video servers is a sophisticated undertaking.

"There's a whole set of economic, operational and business issues that are addressed by how you architect a system," observes Jim Barton, president and general manager of Interactive Digital Solutions. IDS was formed by Silicon Graphics and AT&T to work on projects such as Time Warner's Full Service Network in Orlando, Fla.

Barton isn't alone is talking about these issues as problematic.

The construction of two-way video networks relies on the computer industry's expertise in getting various software programs to work together. So it's not a surprise that the different approaches various computer companies are taking with the cable industry are extensions of the formulas they've used to succeed in the computer business.

"As you go around and talk to all these people, each one has an area they're peaked in," says Chris Pedersen, video server product manager for Hewlett-Packard's video communications division.

This colorful Hewlett-Packard brochure promoted the virtues of the video server—a not inexpensive piece of high-tech equipment that is necessary for video-on-demand.

"It's very new and people are taking a lot of approaches."

A brief look at four large computer companies that have been the most public in their desire to enter the two-way video business offers some looks at what might happen. And while that's made for some confusion—the competition for this new market is only going to get more intense and no two companies are pushing the same idea—it's a good way to evaluate where video-on-demand technology stands today.

Silicon Graphics

SGI's involvement in Time Warner Cable's Full Service Network has led directly to the creation of Interactive Digital Solutions. Neither Barton nor Time Warner engineers will say where the next full service network—sometimes jokingly called "Son of Orlando"—will be located. But some speculation has centered on Rochester, N.Y., where Time Warner has been busily adding telephone capacity to its cable system.

SGI's approach to the cable business has been to concentrate less on the technology of deploying video and more on getting various operations issues worked out. That's partially because SGI feels that it has solved the problems of transporting digital video. The company already has a well established server and workstation business that's popular with video production firms and Hollywood. Now, it's figuring out how to get that video from servers to customers.

"I learned a lot about the cable industry without having to build a thing," says Barton. Some of what Barton calls "low-level issues" that have to be resolved in the construction of a two-way video system include synchronizing lips and sound since asynchronous transfer mode (ATM, the transmission method being used in Orlando) doesn't send those parts of a movie or video the same way analog does.

SGI's going to be the first of the four big computer companies to publicly unveil its products, even if the workstation capacity installed in those 4,000 Orlando homes is beyond what most cable operators—not to mention customers—can afford. The question now remains: can it be brought down

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Hewlett-Packard

H-P is just as bedeviled by Barton's "low- level issues." And it's one of the reasons the company has decided to concentrate on helping to resolve those issues before it deploys its technology.

"We're building something from scratch," says Pedersen. "Because of that, it's coming to market late."

H-P has a series of software innovations that it calls its video transfer engine, which essentially goes between the video server and whatever sort of network a cable operator or telephone company wants to use.

The video transfer engine is also designed to work with billing and other management systems so that information can flow easily from one end of the network to another. It also is designed to process return path information. That's the key to H-P's approach to the video business: a reliance on building equipment that can work easily with other equipment regardless of who is making it or what sort of delivery protocol is used.

It's the philosophy that has led H-P to make printers that work with Macintosh machines as well as IBM clones or other manufacturers' personal computers. "We're going to build things that work with other things," says Pedersen. "Eventually there are going to be some open standards. We'd rather not have them open like Microsoft where everything has to be the same."

Microsoft

The software giant is hoping to replicate its overwhelming success in the personal computer market in the interactive television market, but it's going slowly.

That doesn't mean Microsoft doesn't have the technology. By all accounts, it does. And it's approach to cable relies on its expertise: writing software programs for personal computers.

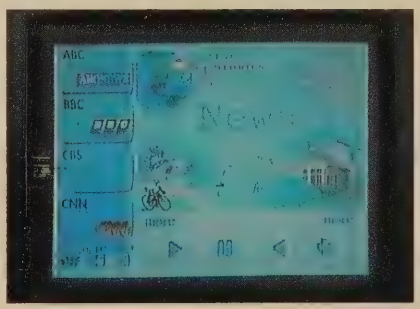
Tiger is a "continuous media server" or a software program that manages the delivery of video, according to Tiger product manager Colleen Lambert. "It's not an operating system. It's more like an application that runs off Windows NT," she says. Windows is an operating system for personal computers.

Tiger is up and running and will be tested in two locations starting this winter, says Lambert. It has already been tested in Microsoft's lab. The first field test will begin in December with some 200 Microsoft employees living in Redmond, Wash. A second test is scheduled for next year in Denver with Tele-Communications Inc. employees.

Tiger can run off a series of personal computers linked together through an ATM network or the PCs can be racked together, says Lambert. Racking "makes it more manageable," she says. "It really is a bunch of PCs."

The idea of running a video processing system off a series of PCs make Tiger more appealing to cable operators because it can be tailored for the operator's needs.

"It makes it extremely scalable," says Lambert. That means a small operator can use only a few PCs to send video. Larger operators can rack those individual processors together. In addition to being "scalable" Tiger uses some of the software designs already in other Microsoft products so the company, in essence, doesn't have to reinvent a particular protocol or way of managing data to process video.



Software from one heavily hyped company—Oracle—will enable the delivery of many interactive applications, including video-on-demand.

But the company fully expects to see changes in the way its video server solutions get to market, particularly with on-screen displays and navigation tools.

"We haven't been through our first trials. We haven't had the failure that other companies have."

Oracle

Oracle Corp. had what was probably the most lavish announcement of an entry into the interactive television business—a three-city, cross-country satellite-delivered press conference heralding the company's media server.

And Oracle has signed a few deals. It is involved in Bell Atlantic's video networks, and like H-P and Microsoft it is exploring ways to coordinate its servers and software with various set-top boxes, regardless of manufacturer.

But the company has been crippled by the cable industry's unwillingness to invest in the technology to make interactive television a reality, according to Andrew Laursen, senior director of Oracle Media Server Development.

"The only trial the cable industry has is Orlando," says Laursen. "Most companies except for TCI and Time Warner and Viacom are poor. They're cash-strapped," he says.

For that reason, Oracle doesn't expect the cable industry to lead the way in developing new ways of processing video, Laursen says. Oracle is working with Cable Television Laboratories Inc. to come up with "a reference model" for the deployment of interactive video.

Oracle made its name providing massive processing systems able to handle and sort through massive amounts of data. To come up with a turn-key system—one ready to go almost immediately after purchase—"is the best leverage of our time," says Laursen. It's also in keeping with the company's history.

"We don't build hardware. We don't build networks and unlike Microsoft we don't build content," Laursen said during the IDG Information Superhighway Summit in late September.

Oracle expects its servers to be ready for public deployment by the end of next year. By the end of this year, he says he expects to have maybe 1,000 customers as part of a Bell Atlantic trial. In the meantime, he says, the cable industry is demanding prices too low for Oracle to reach right now. Set-tops need to be between $50 and $200, and digital stream processing needs to be down to $100 each, Laursen says. He doesn't see those numbers arriving for maybe two years.

"Orlando is nothing whatsoever to do with getting the price down," he says. "That's not about getting a $100 set-top." CV

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by R. Thomas Umstead

PPV Nets Ready for VOD

Viewer's Choice and Request TV say they can tackle the competition as PPV expands

While most of the pay-per-view industry is eagerly preparing for a future explosion of near-video-on-demand and video-on-demand technology, one segment of the business may not be championing the VOD cause: PPV networks.

While the three PPV mainstream networks—Request Television, Viewer's Choice and Graff's Cable Video Store—currently control the distribution and promotional chores for the majority of the 23 million addressable households, their role might radically diminish as electronic file servers replace satellite distribution of movie product.

Undaunted, however, the networks maintain that they will be significant players regardless of how the future PPV landscape will look.

With most systems only offering two to three channels of PPV programming, operators say it's more cost effective to have the networks deal with securing licencing deals for PPV programming while they concentrate on the in-house functions.

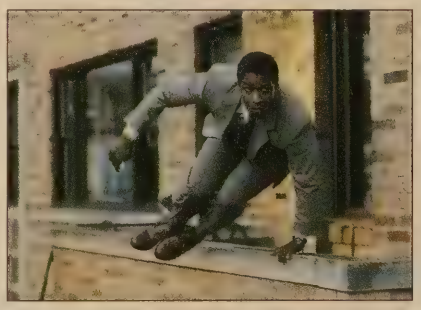
With the introduction of near VOD—which is expected to be launched on a wide scale by mid-1995 with the distribution of digital converter boxes—operators will be able to offer movies on a daily basis with as many as 40 to 50 channels presenting movies every 10 to 15 minutes. Currently, none of the services offers more than five channels of PPV.

Furthermore, pure VOD applications—through a central video file server at the system's headend—will technologically deliver a movie to the subscriber at the exact time or date they choose, further challenging the PPV networks' future viability.

"I think there are going to be many more stand-alone operators that will be able to handle their own PPV operations," says one major studio executive.

Not all operators will be in an economical position to leap into the new technology VOD needs to run, says Jim Heyworth, president of Viewer's Choice. The cost of installing file servers—estimated by industry experts to cost between $500,000 to $2 million—is high.

Add the additional expense of digitizing the movies—approximately $6,000 per title—and the prospects of smaller systems going to true VOD is less likely, says Jeffrey Bernstein, VP of programming and marketing for Request.



The PPV networks hope to continue to offer and market movies such as *The Pelican Brief*, starring Denzel Washington, to the cable marketplace of the future.

One potentially big roadblock for networks could come from the movie studios themselves, who have made noises about developing their own channels for exclusive distribution of their own titles and licensing them directly to the cable operators. But Bernstein downplay such proposals, calling it more of an "ego" trip for the studios than reality.

"If you go to a video store, you don't see a Paramount shelf or a Disney shelf or a Warner Bros. shelf," he says. Still, some think the studios could be a major threat down the road.

Meanwhile, Viewer's Choice and Request are planning channel expansions to keep up with affiliate needs and to meet market requirements. "As the environment changes, we will also change to serve the interest of our customers," says Heyworth. "It's our intention to be their PPV service company both as a program supplier and a retailer."

"We'll be able to offer both digital and analog [channels] and continue to do marketing and programming," adds Bernstein.

Operators also see the advantages of maintaining the middleman in a multichannel environment. "You still have marketing and administration duties that have to be performed," says John Clark, senior VP of marketing and programming for Crown Media Inc. "In many businesses there is a role for the middleman beyond distribution."

"There has to be a national program provider because I don't think every system can afford the equipment necessary [for VOD]," adds Andy Albert, director of programming for TeleCable Corp.

Greg DePrez, VP of PPV for TeleCommunications Inc., says with next year's launch of TCI's "Headend in the Sky" digital distribution system—which will offer somewhere between 24 and 40 PPV channels—TCI will look to the PPV networks for programming and marketing help.

"There is still going to be a need for someone to acquire and intelligently schedule PPV events and movies for a multichannel environment," says DePrez.

As for the networks, they say it all comes down to providing the best service for their affiliates so that they in turn can please subscribers. Says Heyworth, "what's important to the consumer is the delivery and the presentation of the programs." CV

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A Lonely Guy?

Video dialtone used to be the decision that a lot of people at the Federal Communications Commission hoped would go away. And for a little while, it looked like they might get their wish.

If the telecommunications legislation that died in the U.S. Senate had passed, there would have been a whole new set of rules for the commission to consider as it allowed phone companies into the video business. Telephone company entry into cable would have been controlled by statute spelled out in H.R. 2626 and S. 1822, not just by the commission's regulations. The force of law would have applied to cross-subsidization, which has been the biggest problem with any sort of video dialtone approval.

Now, the FCC has to do the work that the Congress tried to do. And the whole process is starting to look like FCC Chairman Reed Hundt's first big political test: He's got to do the right thing in the administration's eyes without alienating Congress.

Politically, Hundt is in pretty good shape. He lowered cable rates—or at least has gone through the motions of lowering rates—and that's made Congress happy. It made them look smart to pass the 1992 Cable Act. Hundt brought in a ton of money with spectrum auctions and that's made the White House happy. The auctions (which were the Republicans' idea in the first place) left the impression that Democrats are making government more efficient.

Enacting rules for telephone entry into the video business is not something guaranteed to make one of those constituencies happier than another. That's the test that Hundt's facing. One side has already staked its claim.

House telecommunications subcommittee Chairman Rep. Ed Markey (D-Mass.) has told Hundt to take his time writing the video dialtone rules. The words "slow down" and "video dialtone" aren't appearing in the same sentence but the message is being sent. It's a little bit like the method that high speed computer networks use to send data: The words take different paths but in the end they all end up in the same place.

Hundt has to do the right thing in the administration's eyes—and not alienate Congress

"The only thing I care about is that they fully evaluate the issues before them," said Markey, who said he wants the commission to take as long as it needs to make the proper decision.

Markey's playing a little hardball here. He justifiably blames the regional Bells for the death of telecommunication legislation in the Senate. The RBOCs can't get into video without the commission's approval and all of them have video dialtone applications pending at the FCC. Markey's just suggesting a little quid pro "slow" for killing the bill.

But Hundt has told other commissioners he wants to act. And this is where things get tricky. If he does nothing, Hundt could lose friends at the White House. The administration wants an information superhighway built during its lifetime and any legislation, at this point, is another two years away. In November, 1996, the Clinton/Gore ticket will be facing re-election. It wants to be able to show voters what it's done.

Hundt won't be getting any vocal support from Congress if he delays action on video dialtone, since the FCC is supposed to be an independent agency. Democrats, already on the ropes, aren't going to go looking for new opportunities for Republicans to call them meddlesome and manipulative. Besides, there's a chance Hundt will be answering to Republicans on the Hill next year.

Hundt may get some support from the White House when he starts processing video dialtone applications but, just like the more astute Congressional Democrats, the administration isn't going to put itself too far out front, either. "I do think they're on their own here," says a telecommunications lobbyist.

That lobbyist isn't so sure that the FCC is anxious to deliberately slow down video dialtone to retaliate for the death of telecommunications legislation.

"I don't sense a 'let's take revenge on the phone companies [tactic],'" he says. "I sense, 'we've got a limited time here, if we don't get moving somebody else will build the information superhighway.'" CV

The 'Sacred Bond' Is Out

It's painfully evident that times are tough for any new programmer who lacks patience, abundant equity and connections to either a well-positioned parent or a formidable MSO. The programming world has no middle-class. The established genre is celebrating in style, with many operations valued in the range of 13-14 times cash flow. In contrast, the hatching infants chirp meekly outside the gates, pleading for mother's milk.

Perhaps it needn't be that way. Perhaps entrepreneurial programmers can share in the bounty. Of course, a strong base of good product—created from spending on original programming and/or accessing heretofore untapped libraries—will be *de rigueur*.

Some fledgling programmers are wisely focusing on cable's competitors.

DBS already has some differentiated product. An example: the All News Channel, a joint venture between Viacom and Hubbard Broadcasting. With content from 150 worldwide bureaus, its resources surpass those of CNN.

Turner's Cartoon Network and Classic Movies channel are available to DBS subscribers, as are both the full range of Encore product and all the Time Warner and Viacom multiplexed services. You don't even need the fingers of one hand to count the number of cable systems with a similar mix.

General Motors is readying a third DBS satellite to carry even more programming. Once the engineers learn to embellish compression ratios without sacrificing picture quality, a 250-300 channel DBS menu is attainable, perhaps as early as 1996. Beyond that, an Echosphere DBS satellite should offer another point of entry for niche programmers.

Telcos planning video dialtone platforms in their interritory broadband networks will necessarily welcome all comers. Every adequately financed programmer can and probably will take advantage of this opportunity.

Wireless competitors, though capacity constrained, are creatively differentiating their program offerings. Examples include a scaled-down Videoway interactive service destined for several markets and the Arab language subscription service being offered in Detroit.

For traditional cable, maintaining the programming status quo is obviously an unwise option. As a minimum, electronic (i.e. compression-based) upgrades seem a competitive necessity. One possibility is to offer $300 set-tops to customers who can connect into TCI's HITS ("Headend In The Sky") service.

For the truly daring, there's another alternative: Start all over again.

First, categorize 100-plus available satellite services (e.g. sports, religious, news/public affairs, shopping, pay-per-view, premium, fine arts, childrens, music, etc.). Thanks largely to the continued burden of must-carry, it's likely that anywhere from 60 to 80 services won't be able to find a home. Why not let the customers make the tough choices?

'It's no longer important to be good friends with somebody at Turner or Viacom or Rainbow'

Well-managed systems are increasingly surveying customers before adding or deleting programming. So, let customers pick their favorites. What operator is omniscient when it comes to making choices?

Customers will probably go with the known quantities anyway, so there's little likelihood of clamor over losing ESPN or MTV to an upstart competitor. But, if they prefer a newcomer, so be it.

Easier said than done, you say. After all, there are contracts to consider. With the term "cable programming" now anachronistic, no sacred bonds exist between cable operators and programmers. It's strictly business. As one MSO chief recently told us, "It's no longer important to be good friends with somebody at Turner or Viacom or Rainbow. Those guys have their agenda and we have ours. We've been giving them carte blanche for too long. Competitive distribution means we can't afford that any more."

It's radical and gutsy to tear up all the programming contracts and start from scratch. But the cable "gatekeeper" (which seems to be how the courts are tending to regard cable operators) has plenty of negotiating clout. Whoever offers the best deals, consistent with customer desires, should become the services of choice. CV

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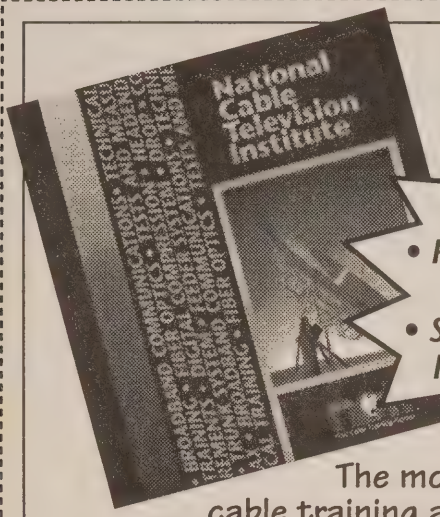

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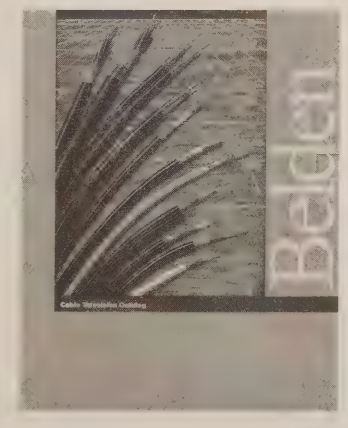

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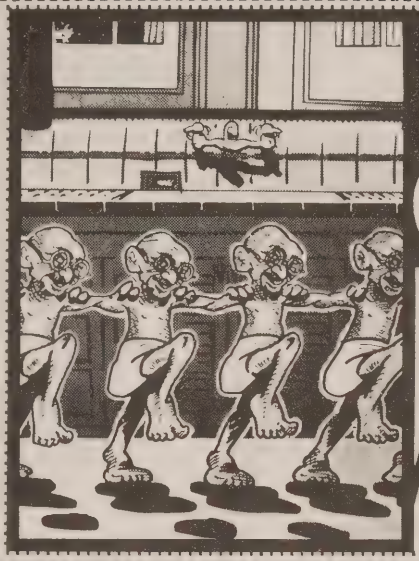

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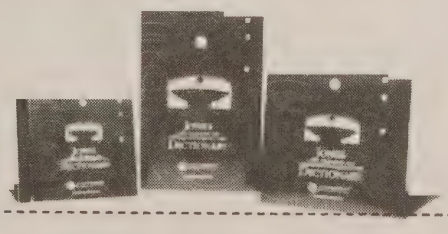

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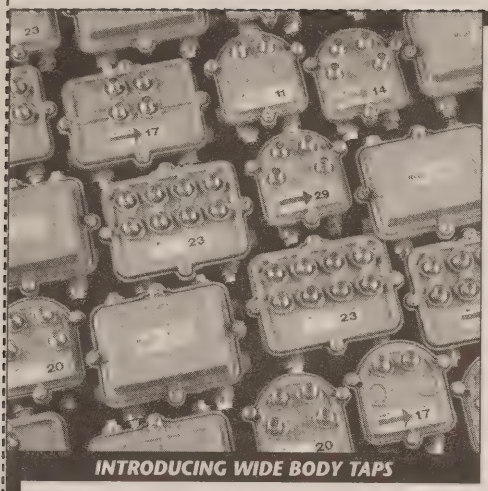

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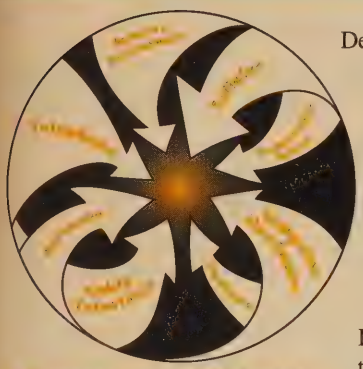

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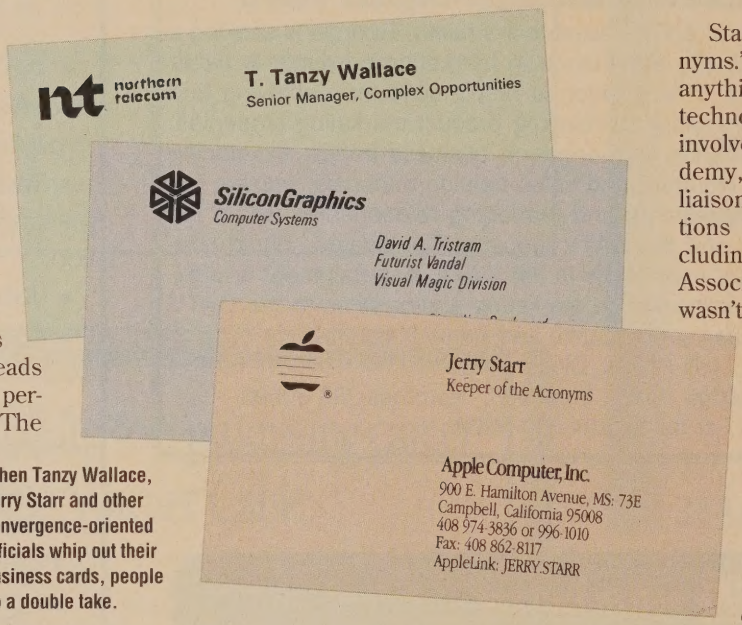
THE LAST MILE

BY SIMON APPLEBAUM

The Title Zone

Northern Telecom senior manager Tanzy Wallace has a pretty straightforward job—her business is generating projects and services possible under the "convergence" of cable, computers and telephony. But it's her job title that is a bit unusual.

Her title—senior manager, complex opportunities—has been known to turn a few heads when announcing herself on personal visits or phone calls. "The first reaction is a deep chuckle or a double take," Wallace says. "It makes people notice you, especially when you're 4 feet, 10 inches and 92 pounds."



When Tanzy Wallace, Jerry Starr and other convergence-oriented officials whip out their business cards, people do a double take.

Don't look for anything conventional from her boss, Steven Fleming, either. He's a "broadband evangelist." And he's darn proud to be known under that moniker.

Is there a trend here? You bet, Wallace says. In this drive to bring interactive, digital and multimedia services to cable households, the people behind that change will take on a panoply of non-traditional job titles, many of which originate from computer industry circles.

For example, within the hemisphere of IBM, Microsoft, Apple and such, evangelist means someone who goes out and stimulates development of new computer hardware and software applications. Even more unique titles can be found at individual companies. Silicon Graphics official David Tristram is back this month after an extended sabbatical, working as a "futurist vandal" in the company's "virtual magic" division.

Apple's Jerry Starr, who serves on the National Academy of Cable Programming's board of governors and helps coordinate the CableACE Awards, sees cable operators and programmers coming around to the computer way of identification. "They'll be some resistance," he says. "But as this industry matures in some surprising ways, this kind of behavior will be indicative. The titles will be creative, people will get calls a few times a week at least from questions about them—and perhaps some great opportunities from them."

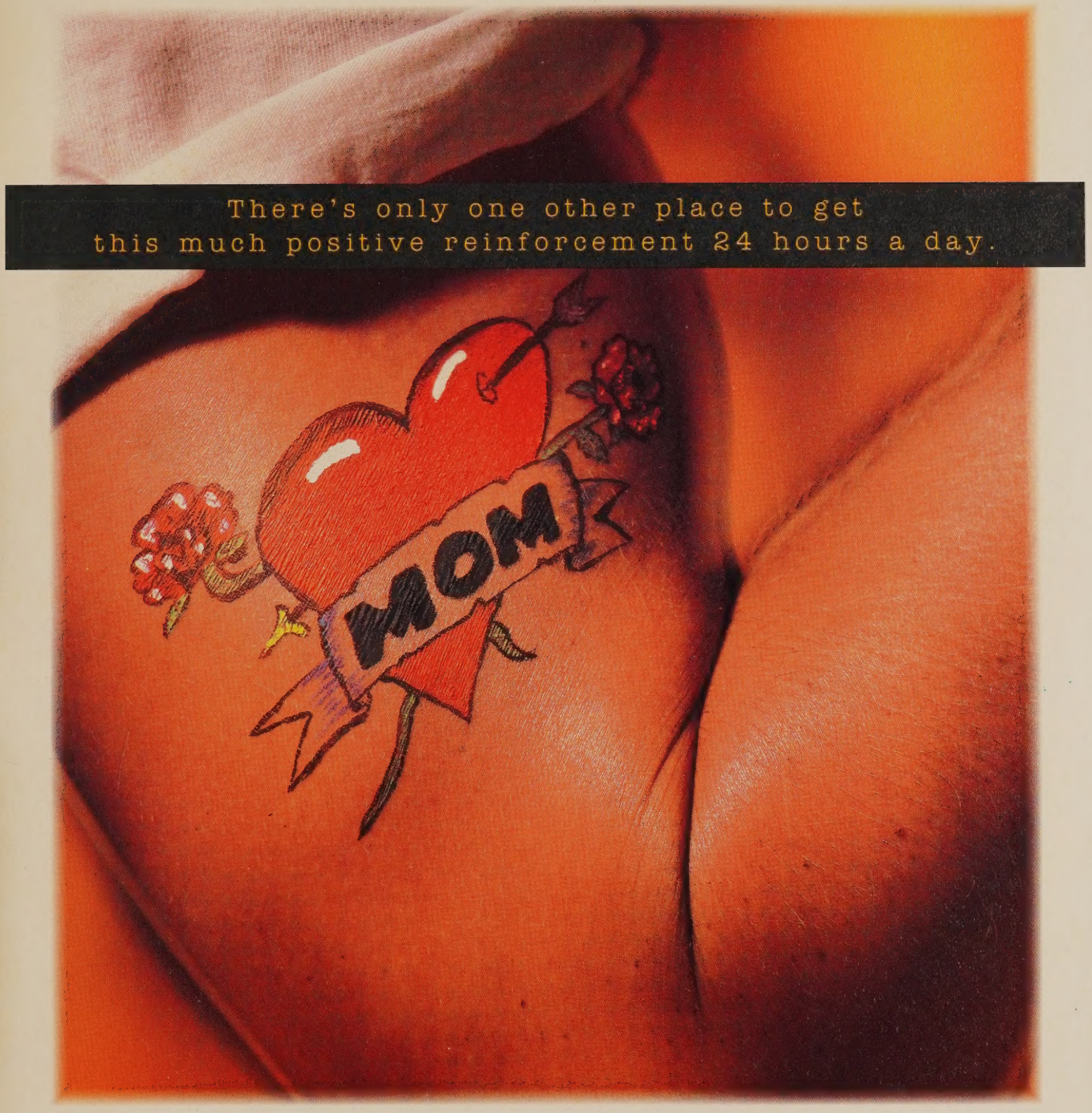
"In a digital world, your next job could be ... 'futurist vandal'!

Starr is "Keeper of the Acronyms." But the choice didn't have anything to do with any kind of technology. In addition to his involvement with the Cable Academy, Starr serves as a vendor liaison for 200 different associations in various industries, including the American Society of Association Executives. So he wasn't about to promote any particular technology, even though he works with Apple's advanced technology group.

"Each board [of the 200 associations] wanted their acronym on my business card," Starr says. "There's only X amount of real estate on that poor little card. So I came up with the title to make everyone happy."

Fleming and Wallace got into the futuristic name game, because conventional definitions didn't fit what Northern Telecom wants to do in cable. "This is an industry so dynamic that the activity is chaotic at best," Wallace says. "Even though you have positions like strategic marketing or new business development, which explain in some capacity what you do, we found ourselves undefinable. The title I have positions me as a maverick that's a catalyst for change."

The name-that-job challenge doesn't stop here. We hear from good sources that Apple has a few "Batmen" and "Zookeepers" on the premises. CV



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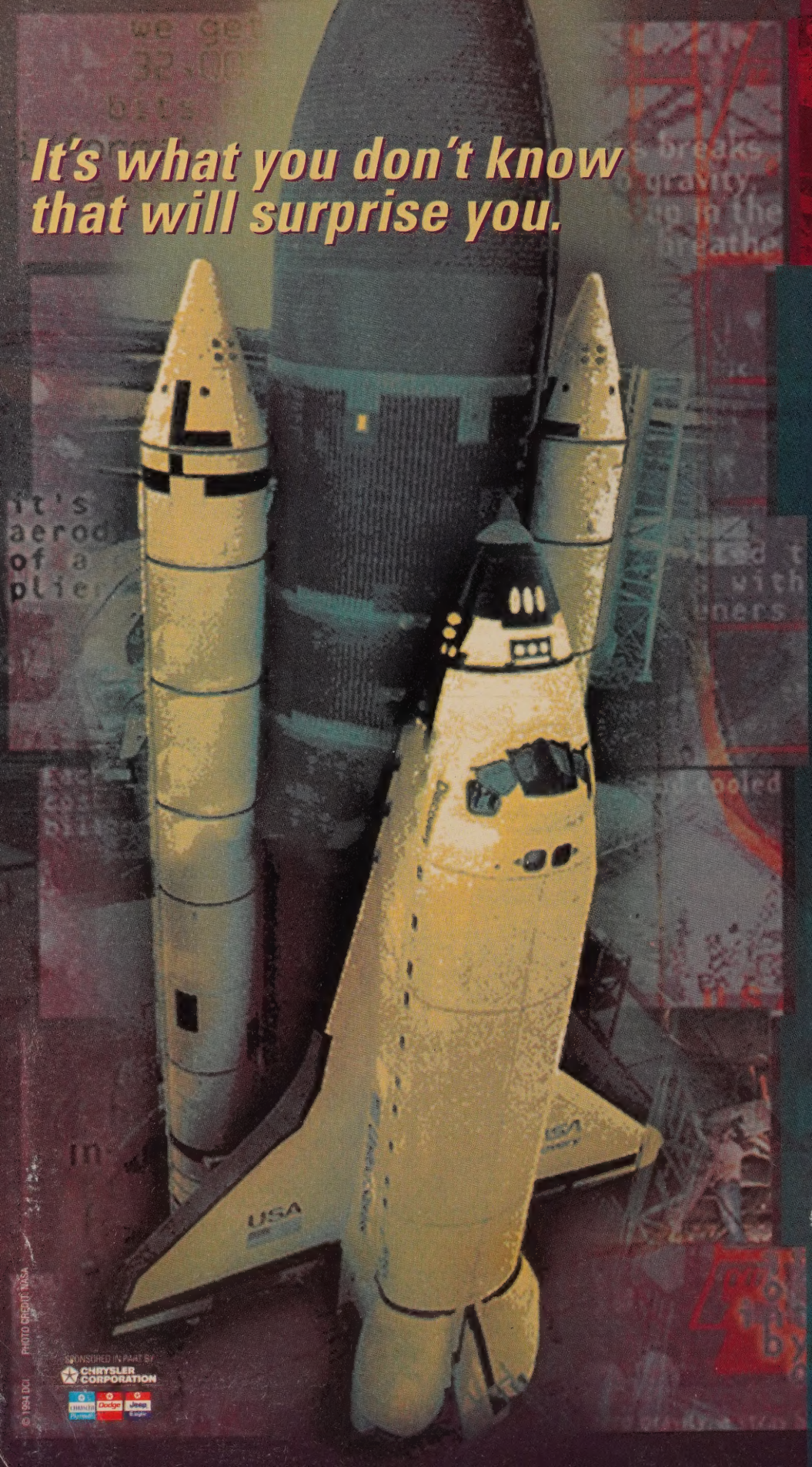

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